

# An examination of the application of corporate planning in the four major organisations within the nationalised transport sector in the United Kingdom with special attention to the British Railways Board.

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An Examination of the Application of Corporate Planning in the Four Major Organisations within the Nationalised Transport Sector in the United Kingdom, with Special Attention to the British Railways Board

Submitted by D.G. Williams M.Sc., FCCA.,

for the degree of Ph.D. of the

University of Bath

1981



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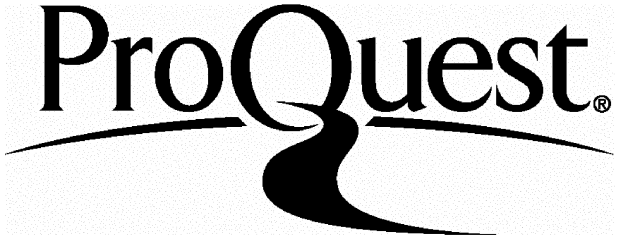
D.G. Williams



## SUMMARY

In this thesis, the author examines the theories concerned with the process and procedures of corporate planning and compares this theoretical situation with the practical application of corporate planning undertaken by the four major organisations within the nationalised transport sector in the United Kingdom, viz - British Railways Board, National Freight Company, National Bus Company and British Airways. A comparison is made between the experience of these organisations and, in respect of one of them, British Railways Board, an assessment is made of the success with which its corporate planning has been applied. The theory versus practice comparison and the assessment of success lead to the provision of a number of recommendations which the British Railways Board might adopt to enhance the success of its corporate planning.

During the course of the discussion contained within the thesis, a considerable amount of information is provided concerning the four organisations. This is designed to facilitate an understanding of their nature, size, markets and financial situations, all of which impact upon their approaches to corporate planning. Attention is also paid to their relationships with Central Government and Local Authorities which also influence their corporate planning activities.

## ACKNOWLEDGEMENTS

The research in respect of this thesis could not have been undertaken without the cooperation of a large number of people. Those whom I have troubled most are mentioned here but many others have provided me with information and comment, for which I am very grateful.

Within the British Railways Board, my special thanks are offered to Trevor Miller, Finance Officer (Planning) and Peter Linney, Principal Rail Planning Officer. I am extremely indebted to both, not just for the documents, files and other records which they provided but for many hours of spirited discussion covering the theory of corporate planning and its application within the British Railways Board. Thanks are due similarly to Mr M.D.R. Sweet, Director of Corporate Planning, National Freight Company, Mr W.H. Naphine, Head of Corporate Planning and Mr B. Griffiths, Head of Economic Research, British Airways and to Mr D.W. Glassborow, Director of Research and Strategic Planning and Mr M. Roxborough, Planning Manager, National Bus Company. It is particularly pleasing for me to be able to acknowledge the friendly reception with which I was provided by each of these senior and busy people and the candid nature of the discussions which took place.

By far the greatest tribute must be paid, however, to two people who have devoted a considerable amount of time, enthusiasm, patience and understanding to the completion of this thesis. The first is my supervisor, John Harris, Senior Lecturer in

Managerial Economics, Univerisity of Bath and the second is my wife Glenys, in her roles as wife, mother and typist of the thesis and its earlier drafts. I shall always be extremely grateful to both.

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# CHAPTER 1

# INTRODUCTION

During the last twenty years, considerable strides have been made in the development of corporate planning theory and in its application in many organisations of various types and sizes, in what is generally described as the Western Economy. The process of corporate planning and related procedures have attracted a considerable amount of enthusiasm, some scepticism and a great deal of effort to promulgate and achieve its claimed benefits, on the part of academics and practitioners alike. However, relatively little attention has been paid so far to establishing the success of the use of corporate planning, partly because of its infancy and partly because of difficulties of measurement.

## 1.1. Purpose of Thesis

This thesis seeks to examine the theory of corporate planning and compare that theory with practice in connection with four United Kingdom nationalised transport organisations. It will also assess and comment upon the success of its use in respect of one of those organisations - the British Railways Board. The other three organisations involved are the National Freight Company, the National Bus Company and British Airways. Since all four corporations are nationalised transport organisations, this facilitates consideration of the extent to which corporate planning has been undertaken in a context which is wider than that of a single corporate entity - in this case the nationalised transport sector.

In more formal terms, this thesis is designed to:-

1. Compare the approaches to corporate planning of the British Railways Board, the National Freight Company, the National Bus Company and British Airways with the established theory and between each organisation.
2. Consider the extent to which coordinated corporate planning has existed in the nationalised transport sector.
3. Assess the success of corporate planning in the British Railways Board.
4. Provide recommendations which the British Railways Board might adopt to enhance the success of its corporate planning.

Items 3 and 4 are regarded by the author as the primary purposes of the thesis for two reasons. The first reason is that, with a perceived general lack of research into assessing the success of the application of corporate planning, in and by organisations, this will make a useful and not insignificant contribution to knowledge. The second reason is that a comprehensive appraisal of the impact of its corporate planning process and procedures, with related recommendations, will be helpful to the British Railways Board. Indeed, some of the recommendations are already receiving attention, having already been accepted during the research and discussion stages.

Items 1 and 2 are, consequently, regarded as secondary purposes but are nevertheless important in their own right. The comparative study incorporated in Item 1 is designed to add to knowledge in this area and to establish whether the four organisations which, superficially, seem similar in many

respects, have each adopted approaches to corporate planning which are significantly different to established theory and to each other. Some of this information is also vital to considerations in Item 3 and 4 since any differences compared with established theory, in respect of the British Railways Board, are likely to have an impact upon the success of its use of corporate planning.

The author's interest in this area of research stems mainly from his M.Sc. studies at the University of Bath in 1973/74 and his subsequent involvement in aspects of the corporate planning process and procedures of the British Railways Board during the three years 1975 to 1977. During these occasions he developed a keen interest in the theoretical nature of the process and procedures and their operation in practice. Indeed, his M.Sc. dissertation, which dealt with the growing involvement of Non-metropolitan County Councils in transport planning (following Section 203 of the Local Government Act, 1972), was fundamentally concerned with placing that issue within a corporate planning framework.

Since January 1978, the author has not been engaged in corporate planning per se but in management accounting in the capacity of Senior Finance Officer, Budgets, London Midland Region, British Railways Board and, since September 1980, as Chief Finance Officer of that Region. He has observed, with concern, a lack of involvement of the General Managers and Chief Officers of the five Regions of the British Railways Board in its corporate planning process and procedures. This has enhanced his desire

to establish the overall situation and make recommendations for improvement.

## 1.2. Hypotheses to be Tested

In undertaking the tasks outlined, a number of hypotheses will be tested. These are that:-

1. The four organisations studied may have developed corporate planning processes and procedures which are at variance with generally accepted theory and also differ one with another.
2. Each organisation may have found it necessary to develop its corporate planning process and procedures according to its own perceived needs rather than with central guidance.
3. There may be little evidence of the organisations contributing to a wider nationalised transport sector corporate planning activity.
4. Elements of the general theory of the process corporate planning may need to be modified to suit the special needs and characteristics of the organisations.
5. Each organisation is likely to be committed to computerisation of much of the corporate planning process/procedures to provide more 'thinking time' and evaluation of alternatives.
6. There may be, in each organisation, a lack of attention paid to the development of non-financial objectives.
7. There are likely to be generally accepted measures of success which can be used to assess the success of the application of corporate planning.
8. These success criteria can be used in respect of the British Railways Board.

9. Because of external economic factors, the corporate plans produced by the British Railways Board in recent years are not likely to have been successfully implemented and may have undergone considerable change.
10. To some extent, the value of corporate planning to the British Railways Board may be in the process itself and not just in the plans.

## 1.3. Structure of Thesis

The structure of the thesis is designed to deal with the purposes and hypotheses identified. This will be undertaken in four Parts. Part 1 contains Chapters 2 to 4. Chapter 2 explains the research methodology and Chapters 3 and 4 represent, fundamentally, a survey of literature relating to corporate planning. Chapter 3 provides details of some of the published theory relating to the process of corporate planning. It also contains details of survey evidence of the benefits of corporate planning. It culminates in a general summary of the total process produced by the author, which is provided to facilitate the practical comparison. This summary is intended to structure the theory comparison and eliminate any problems which might otherwise be caused by the use of different and sometimes interchangeable terms which appear in the published theory. It includes a model of the main elements of the total process of corporate planning. Chapter 4 provides details of published theory in respect of related corporate planning procedures, but dealing only with forecasting, corporate modelling, sensitivity and risk analysis and, budgetary

control.

Part 2 contains chapters 5 to 9 which are intended to provide sufficient background information concerning the four organisations studied to enable a reasonable understanding to be obtained of their nature and size and how they fit into the overall nationalised transport sector in the United Kingdom. This information will be seen to be material to the development of their corporate planning activities. Chapter 5 considers the nature and size of the nationalised transport sector itself and how it fits into the United Kingdom economy and overall transport sector. It continues by placing the four organisations in the context of the nationalised transport sector and then compares the organisations in terms of markets, culture, growth, organisation structures and financial situations. Chapters 6 to 9 provide further background information in regard to each of the four organisations, respectively. In view of the special attention being paid to the affairs of the British Railways Board, the chapter relating to that organisation (Chapter 6) provides a considerable amount of historical information. This is specifically designed to assist understanding of the strategic considerations discussed in chapter 11 and the 'success' assessment contained in chapter 16, which will depend partly upon an analysis of financial and physical performance.

Part 3 contains four chapters (chapters 10, 12, 13 and 14) which detail, respectively, the practical approaches to corporate planning adopted by the four organisations. In each case, a comparison is made with the theoretical material

provided in chapters 2 and 3. It also contains a chapter (chapter 11) which examines the corporate plans produced by the British Railways Board since 1974. This is designed to provide information which is required for the 'success' assessment. Because of the relative size of the Railways business, within the overall British Railways Board organisation, emphasis is placed upon the 'corporate' plans in respect of that business.

Part 4 contains chapters 15 to 17 which deal specifically with the four purposes mentioned earlier and the ten hypotheses. In chapter 15, the theory versus practice situation is summarised and a comparison is made between the approaches to corporate planning of the four organisations. At this stage, the first six hypotheses are tested. Chapter 16 commences with consideration of the nature of the success assessment and proceeds with an analysis of the features identified, in respect of the British Railways Board. Finally, chapter 17 contains conclusions drawn from the analysis provided in chapter 16 and makes recommendations to the British Railways Board, designed to improve its corporate planning process and procedures. The remaining four hypotheses are tested in this chapter.

All references are provided in sufficient detail to enable the specific book, article, Government publications, etc. to be identified in an alphabetical list which appears immediately after chapter 17. Additionally, all Tables and Figures have been numbered in a separate sequence for each chapter to facilitate cross-referencing. Many of the detailed figures relating to chapters 6, 11 and 16 are contained within

Appendices for ease of reference and to assist the brevity of those chapters.

## 1.4. Use of Thesis

The conclusions and recommendations contained within Chapter 17 and the information on which they are based have been debated with a number of senior BRB managers and formally discussed and agreed with the BRB's Principal Rail Planning Officer and the Finance Office (Planning).

Additionally, during the period of finalising the thesis, the author was invited by the BRB's Director of Finance to assist with an examination of the effectiveness of control methods in the BRB, to be undertaken in October/December 1981 by a consultant from Price Waterhouse. That consultancy exercise originated from the consideration by members of the board that the recent deterioration in the financial results and prospects of the Railways business (see Chapters 6 and 16 for details) might lead the Department of Transport to appoint a firm of consultants to conduct an investigation into similar issues. Thus, the BRB initiative was designed to pre-empt that possibility.

It was agreed with the Director of Finance and the consultant that it would be appropriate to start from the author's research findings. The consultant was also supplied with the detailed analyses on which some of the findings were based (see Chapters 6, 11 and 16 - Section 16.3. and the Appendices) and advised by the author that these had been painstakingly researched and

discussed with a number of BRB planning executives, and could be taken on trust. This offer was accepted without hesitation.

In company with the author (on most occasions), the consultant has interviewed a large number of BRB managers at headquarters, regional and divisional levels. Apart from asking open-ended questions concerning control systems in operation, the consultant has spent much of each interview attempting to obtain corroboration of the research findings supplied by the author. At the time of typing the final draft of this thesis (November 1981) most of the interviews have taken place and it is clear that there is almost unqualified acceptance by the consultant and BRB executives of the author's conclusions and recommendations. The consultant has expressed his gratitude for and acknowledgement of the information and assistance supplied by the author which has greatly assisted his investigation.

A second Price Waterhouse consultancy exercise is proceeding concurrently. This relates to an examination of administration costs with a view to recommending means of reducing them. The author has not been directly involved in that exercise but has provided his views on structural and other changes that he considers will greatly assist the required objective.

PART 1

## CHAPTER 2

## RESEARCH METHODOLOGY

Prior to commencing the study contained within this thesis, consideration was given by the author to the overall structure of the research and the most appropriate method of proceeding with the field research. Throughout the entire period of study, the structure of the research has remained as originally intended but one change, which will be detailed in this chapter, has taken place affecting the originally conceived ideas on the approach to part of the field research.

The structure of the research was designed, as set out in the model which appears in Figure 2.1. From this model, it will be seen that there were twelve separate tasks identified of which eight were seen as being necessary to encompass before the main purposes of the study could be tackled. The first of the twelve tasks was the identification of hypotheses which, apart from representing the author's views on what might be the likely outcome of the research, would also ensure that there would be full consideration of a number of issues which appeared to him to be both conceptually challenging and useful.

The second task was the literature search in respect of the theoretical nature of corporate planning. It was quickly established that there are a substantial number of books, articles and other references in this field many, ostensibly, dealing with the overall process of corporate planning and, to a degree, the procedures which can be incorporated under that

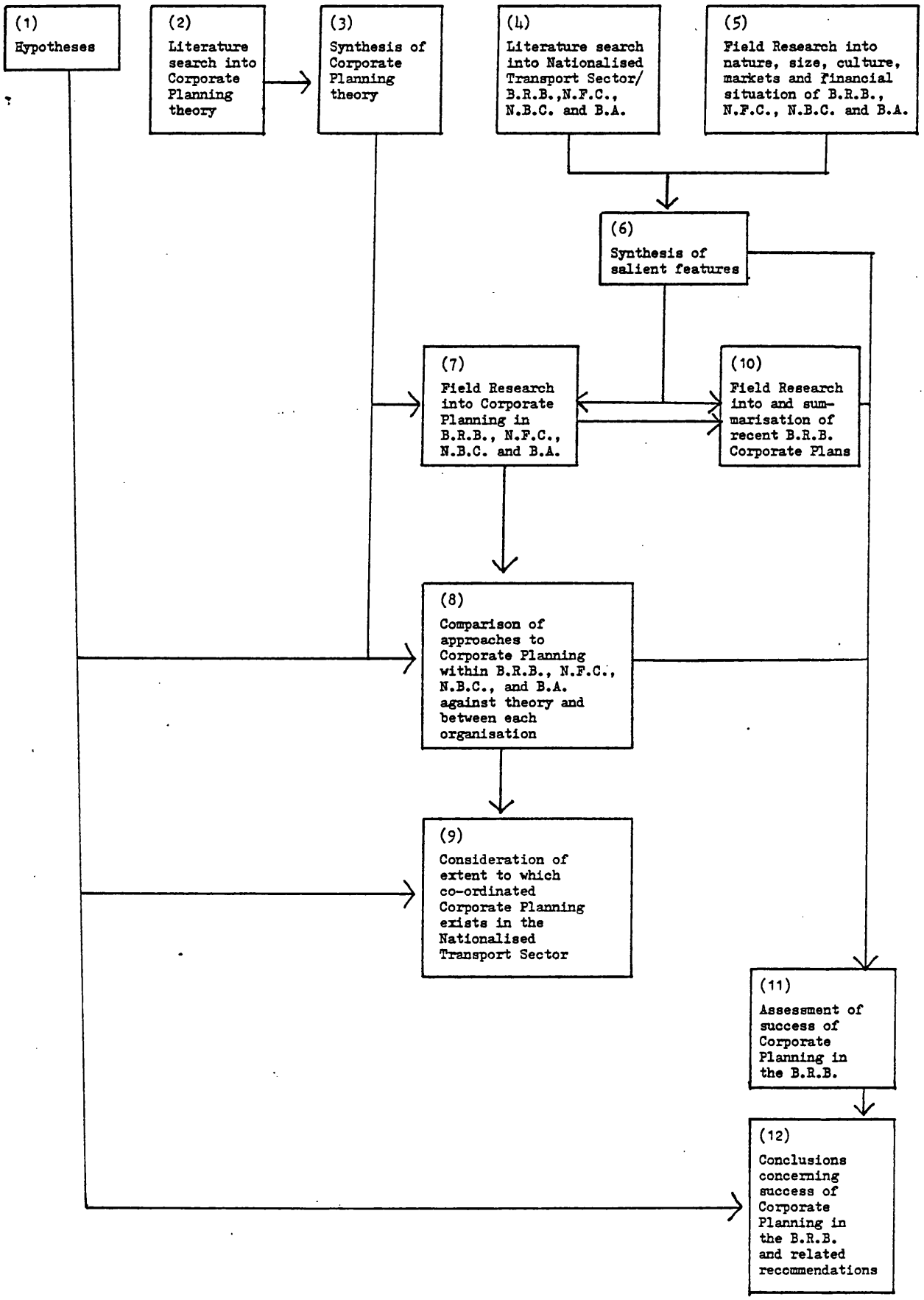



FIG. 2.1. STRUCTURE OF RESEARCH

umbrella title. It was found convenient to separate process from procedures in the literature search and eventual exposition. This was because the process of corporate planning was established by the author to be so complex and far-reaching that it would inhibit consideration of procedural issues if attempted concurrently. However, it was also established that no single item of literature dealt fully with the process of corporate planning, in that elements identified in other references were not encompassed. In respect of corporate planning procedures, it was found that some of the literature did not place the individual procedures in a corporate planning context but there was little difficulty in observing a high degree of agreement between the theories expounded.

The third task was to synthesise the theoretical findings to enable a clear-cut position to be identified (see Chapters 3 and 4) and also to structure and facilitate the comparative study established as one of the purposes of the thesis. Because none of the literature was found to contain a model which was judged by the author to be sufficiently complete and also because of the general complexity of the topic, the author considered it necessary to develop a more comprehensive model of the process of corporate planning, bringing together the elements of the process exposed during the literature search.

The fourth task was to conduct a literature search in respect of the nationalised transport sector and the four organisations covered in the study. This literature search was not only

related to books and articles but to Acts of Parliament, other Government publications (including those published by the Central Statistics Office) and documents published by the four organisations themselves e.g. annual reports and accounts. It was considered from the outset that it would be essential to have a good understanding of the nature, size, culture, markets and financial situations of the four organisations and how they have changed in recent years, since these features would be likely to be material to the development of their corporate planning activities.

However, it was also recognised that it would be necessary to supplement this information by conducting field research within the four organisations. This was identified as the fifth task, which was dealt with largely through interviews and, in respect of the British Railways Board, a detailed examination also of internal documents and files.

The sixth task was seen as being the need to synthesise the material obtained during the literature search (task 4) and the field research (task 5), in order that a clear picture could be presented of the features identified (see chapters 5 to 9). As discussed in chapter 1, it was considered necessary in respect of the British Railways Board, to obtain and record a considerable amount of historical data which would be required to assist the success assessment which the author considered would depend partly upon an analysis of financial and physical performance.

The seventh task was the field research into the corporate

planning activities of the four organisations (see chapters 10, 12, 13 and 14). This was intended to be undertaken on an unstructured basis by merely asking those persons mainly involved in the corporate planning activities to explain their organisation's approach to corporate planning and then ask questions on aspects which appeared to be different to the established theory. This worked well in respect of the British Railways Board where the author, by virtue of his position, was able to examine the relevant internal records and interview the senior people primarily involved. It proved unworkable, however, in respect of the National Freight Company, the National Bus Company and British Airways since, quite reasonably, they wanted to restrict the amount of contact to a level which, although consistent with completing the research, would minimise the inconvenience to their senior planning executives. Consequently, it was decided part-way through this task to design a structured interview programme which was used to structure discussions with senior executives of these organisations, as follows:-

NFC - Director of Corporate Planning

NBC - Director of Research and Strategic Planning and Planning Manager

BA - Head of Corporate Planning and Head of Economic Planning

A copy of the structured interview programme is provided at the end of this chapter. It will be observed that a draft copy of part of chapter 3 of this thesis (the synthesis of corporate planning theory) was supplied to the executives listed above to assist the discussions. Further, whilst the field research

contained in the fifth task was largely conducted in earlier unstructured interviews, the opportunity was taken to incorporate some of its features in the structured interview programme to validate, update and supplement information which had already been supplied. The questions contained within the structured interview programme were considered by the author to be those which would best identify the nature of the process and procedures in the three organisations, within the context of the theoretical position established under tasks 3 and 4.

The eighth task was the comparison of the approaches to corporate planning of the four organisations (task 7) with the theoretical position (task 3), taking into account the impact of the salient features concerning the organisations which had been identified in task 6. Additionally, comparisons between the organisations were considered by the author to be useful. The information relating to this task is contained in chapter 15, wherein consideration is also given to the extent to which coordinated corporate planning exists in the nationalised transport sector. This last issue was separately identified as the ninth task. Five of the hypotheses were to be tested in connection with task 8 and one under task 9.

The tenth task was to conduct field research into, and summarise the content of, recent corporate plans produced by the British Railways Board (see chapter 11) as a further component of the success assessment. Considerable difficulty was experienced in collating the required information since none of the internal corporate plan publications provided all of the data which was

sought and it was necessary to resort to extensive extraction from internal memoranda and working papers. Additionally, changes of layout of forecasts in the various plans meant that a compromise layout of the tables and appendices in this thesis had to be designed by the author to recognise the availability of plan data. This compromise also had to recognise the availability of data concerning actual financial and physical results obtained under task 6. It was necessary, in respect of some of the forecasts, to make calculations using BRB inflation indices to maintain a consistency of approach. Details of many of these problems are given in the Table of Appendices which also identifies the sources of the data provided.

The eleventh task was the assessment of the success of corporate planning in the British Railways Board (see chapter 16) drawing upon the comparative study (task 8), the field research into recent BRB corporate plans (task 10) and the synthesis of salient features relating to the organisation (task 6).

The twelfth and final task was to develop conclusions and recommendations for the use of the British Railways Board concerning the success of their corporate planning activities and, where relevant, the areas where improvement potential could be established (see chapter 17). These conclusions and recommendations were to stem solely from the results of task 11. At this stage, the remaining four hypotheses were to be tested.

Permission to conduct the field research was obtained from the

National Freight Company, the National Bus Company and British Airways by writing, initially, to the Chairman of each organisation. Positive responses were received from senior planning executives and meetings subsequently arranged. In respect of the British Railways Board, a written request was made to the then Financial Controller, who provided his permission after consulting the then Chief Executive (Railways). Subsequent contact with BRB planning executives has been on a personal basis.

At no stage was it considered appropriate or practical to attempt to obtain the information required in the field research by way of a postal survey/questionnaire. Such a procedure would have required an extremely detailed questionnaire and a degree of commitment from the persons interviewed during the field research which could not have been reasonably expected under a postal survey approach.

STRUCTURED INTERVIEW PROGRAMME - National Freight Corporation, National Bus Company and British Airways

1. What is the broad structure of your organisation from Board level down to the lowest management level? What functional specialisation exists within that structure?

2. What is the size (staff numbers) and organisation structure of your Corporate Planning department? What professional disciplines/backgrounds do its members represent?

3. What are the formal structural relationships with Government? What significant informal relationships exist?

4. How does the process of corporate planning in your organisation compare with the attached model (Fig. 3.6) and the related notes (Section 2 of Chapter 3), in respect of each of the stages described, viz:-
   - Assessment of Needs
   - Determination of Objectives for the corporation and for the subsidiaries
   - Determination of related Goals
   - Determination of Policies
   - Development of Strategy through the process of Internal and External Appraisal
   - Preparation of Outline Strategic Plans
   - Preparation of Operating (or Action) Plans
   - Interface with Annual Budgets

- Implementation of each level of the process
- Feedback in respect of each level of the process
- Control action at each level of the process?

Particular attention will be paid to the involvement of the separate organisations in the overall process.

5. Where there are differences, why do they exist?

6. To what extent are the Government, Trade Unions or any other external organisation involved in the process?

7. What are your corporate planning procedures in respect of:-
   - Forecasting (Time Periods, Price levels, Techniques)
   - Models
   - Investment Appraisal and Control
   - Risk and Sensitivity Analysis
   - Budgetary Control
   - Aspects of Costing specifically used in the above procedures (such as apportionment of joint costs)
   - Monitoring of the Corporate Plan?

   (N.B. There will be follow-up questions in this area where the procedures differ from established theory).

8. How many corporate plans have been produced, in which years and covering what time periods?

9. What significant changes have been made to the corporate planning process or procedures since the production of the

first corporate plan? Are any further changes agreed or under consideration?

10. What use have Government made of the corporate plans? Are they regarded jointly as the primary medium of dialogue in respect of future developments and a criteria for control?

11. What training is provided to persons involved in corporate planning?

12. Are outside consultants used in any part of the process?

# CHAPTER 3

## CORPORATE PLANNING THEORY - PROCESS

During the last twenty years a considerable amount has been written about the theory and practice of corporate planning. Examination of this literature shows that much of it is incomplete, with many authors preferring to concentrate on particular aspects rather than the entire process and its related procedures. In this chapter, it is intended to explore some of the important literature on the process of corporate planning and draw out the theoretical views thus expressed. This is meant to produce a fairly detailed view of the process, based on the published work of some of those who are clearly (on the evidence of the search) regarded as the main theoreticians in the field, with other references where considered useful. This information is given in Section 3.1.

However, in order to create a firm footing for the practical comparisons to be examined in Parts 3 and 4, it is considered by the author to be necessary to prepare a synthesis of the main features of the process of corporate planning described in Section 3.1. This is attempted in Section 3.2. by way of containing the author's model of the process of corporate planning. This model will be seen to be a frequent reference point in respect of much of what appears in Parts 3 and 4 and will also be used to structure that discussion.

Consideration of the theoretical aspects of corporate planning procedures are delayed until Chapter 4. This pre-supposes that

a distinction can be drawn between the process and the procedures of corporate planning. In fact, such a clear cut distinction is not completely feasible because they are not mutually independent. However, it is considered reasonable and helpful to deal with matters such as forecasting, model building, investment appraisal and control and, to a large extent, budgetary control under the heading of procedures. This prevents clouding the vital issue of the process of corporate planning with largely procedural detail and enables that detail to be dealt with separately in more depth and within an overall context.

## 3.1. Corporate Planning Process - Published Theory

As mentioned earlier, during the last twenty years, a considerable amount has been written about the theory and practice of the process of corporate planning. A number of academics have become clearly identified as the 'high priests' of corporate planning. Some of the most notable of these are Ansoff, Ackoff and Steiner in the U.S.A. and Argenti and Hussey in the United Kingdom. Their names have become almost synonymous with the process itself. This is not to say that corporate planning was 'invented' in the early part of the 1960's. That could not be a reasonable observation since, under various titles, forms of long-range planning were under discussion many years earlier. A prime example of this was the early work of Drucker who, as long ago as 1955 included 'setting objectives' as one of his five basic operations in the work of a manager. Going back further, Fayol (1949) counted planning as one of six activities in an industrial organisation and, in 1956, Urwick, regarded it as one of seven general management functions.

In a more complete and formal sense, however, or as described in 1974 by Hussey as a 'complete way of managing a business', corporate planning became established during the 1960's. During that decade, the main influences came from the U.S.A. where the work of Ansoff was particularly important. Ansoff provided a very detailed approach to the strategic aspects of corporate planning in his widely distributed book entitled 'Corporate Strategy' first published in 1965. In his own words he set out to examine 'partial analytical insights into strategic business problems' developed over the previous 10 years and 'synthesise and unify' them 'into an overall analytical approach to solving the total strategic problem of the firm.' More will be said of the Ansoff approach later in this section.

For the moment, however, it is considered appropriate to define the process of corporate planning before looking at the nature of the complete or 'overall' process. Immediately following this, details will be given of two published models of the overall process but it will be seen that they are not complete. This adds a further reason for providing the author's model of the general theory of corporate planning in Section 3.2. However, they provide a partial framework for the remainder of this Section.

Argenti (1974) has described corporate planning as 'a systematic approach to clarifying corporate objectives, making strategic decisions and checking progress towards the objectives.' He considered the term 'corporate planning and control' to be a more correct description of the process because of the need for

checking of strategic results also. This theme has been taken up by others, including Hussey, as will be seen in more detail later. Denning (1971) described it as 'a formal systematic managerial process organised by responsibility, time and information, to ensure that operational planning, project planning and strategic planning are carried out regularly to enable top management to direct and control the future of the enterprise.'

Hussey (1974), regarded corporate planning as 'a complete dimension of management, around which can be structured a total approach to running a business.' He related it to the Drucker analysis of management tasks by stating that it 'includes the setting of objectives, organising the work, people, and system to enable those objectives to be attained, motivating through the planning process and through the plans, measuring performance and so controlling progress of the plan, and developing people through better decision-making, clearer objectives, more involvement and awareness of progress.'

Anderson (1975) considered corporate planning to be 'the systematic preparation of forward looking strategic plans defining the objectives to be pursued in the long, medium and short term, within the framework of corporate policy established by the board of directors for the business as a whole.'

Each of these and many others have tended to imply or, in some cases have stated, that the corporate entity under consideration was a 'business', a 'corporation', a 'firm' or a 'company'. This view was not shared by all, however, and the case was well made

by Stewart (1971), Bains (1972) and others that the concept of corporate planning is equally applicable to other forms of corporate entity such as a Local Authority, i.e. County Council, District Council, etc. Indeed, as will be seen later, in his 1979 book Ansoff recognised this point, having earlier concluded that corporate planning could only be applied in profit-orientated organisations. Additionally, Argenti (1974) went as far as to state that whilst 'most of the literature on corporate planning is concerned with this form of planning within business organisations, my own opinion is that the greatest need for it lies in the non-company organisation.' He postulated three reasons for this view, viz:-

1. The size, number and social importance of these organisations is growing much faster than business organisations.
2. It is difficult to state precisely what is the purpose (in terms of objectives) of these organisations.
3. The development of techniques, such as cost benefit analysis, which help to quantify these objectives.

Much of the constant reference to forms of 'business' entity seems to stem from the early literature emanating from the U.S.A. and, as will be seen later, a concentration on financial objectives. This was not unusual since the main practical application has been in the commercial sector. In 1974, Argenti stated, without dismay since he regarded the progress as being 'not unreasonably slow' that:-

> 'By the mid-Sixtees approximately three quarters of the largest five hundred companies in America and Japan were reported to be using formal systems of long range strategic

> planning or were about to do so. But, by the early seventies, there were still some large companies in America and Japan who were not using the corporate planning approach; in Europe there were many; all over the World the number of medium-sized companies not using it must have been enormous; hardly any types of organisation - national and local government, government agencies, charities, institutions, trade unions and so on - hardly any of these were using it.'

At least Argenti, in this statement accepted the principle of the need for corporate planning to be used in all forms of organisation, although most of the remainder of the book referred to, dealt with the 'company' entity. There is no evidence to suggest that the world-wide situation observed by Argenti has been transformed during the last seven years but the development of corporate modelling (referred to in Chapter 4) has given the application of corporate planning a fresh impetus to the greater adoption of corporate planning as the appropriate 'complete way' of managing an organisation of any type. Research evidence in this regard is given in Chapter 4.

Moving from definition to explanation, it is now considered by the author to be useful to explore the concept of corporate planning by reference to its main constituent elements and by reference to a model of what might be close to the total process. However, a model fully suitable for that purpose could not be found although many covered large elements of the process.

For example, in its simplest form, perhaps, Argenti (1974) provided a model of the process as shown in Fig. 3.1. This model isolated some of the fundamental elements as will be clear later, but like many others, was not sufficiently detailed to be used greatly in this context.

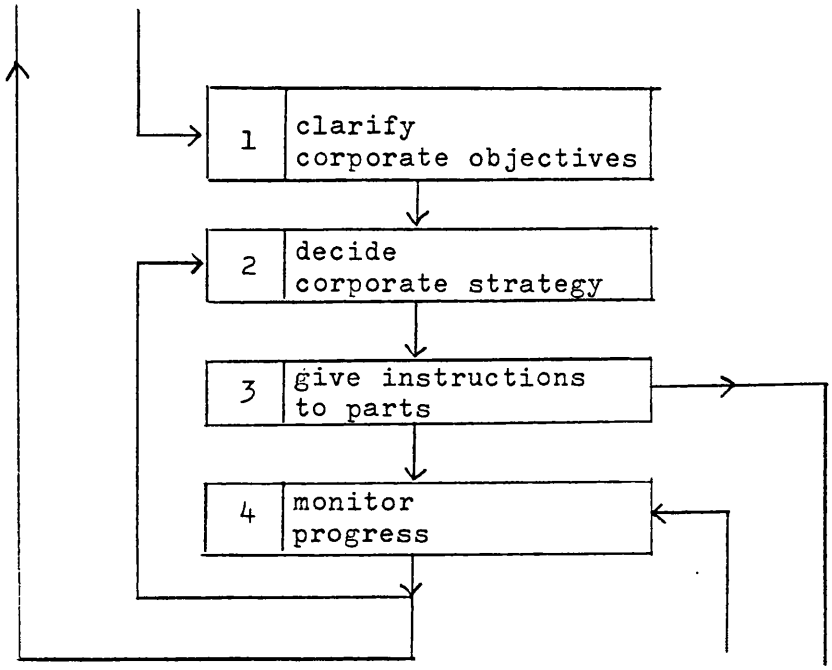



Fig. 3.1. The Corporate Planning Process (Argenti,1974)

However, a more comprehensive model (one of four reproduced) has been provided in Hussey's book, referred to earlier, which is reproduced on the next page as Fig. 3.2. This model was reproduced by Hussey from an approach developed by Urwick Orr and Partners Ltd. This model is the one which will be used, as far as possible, in this section, to structure and analyse the process of corporate planning, thus placing the other theoretical views and quotations into context.

It will be observed that this model differentiates between

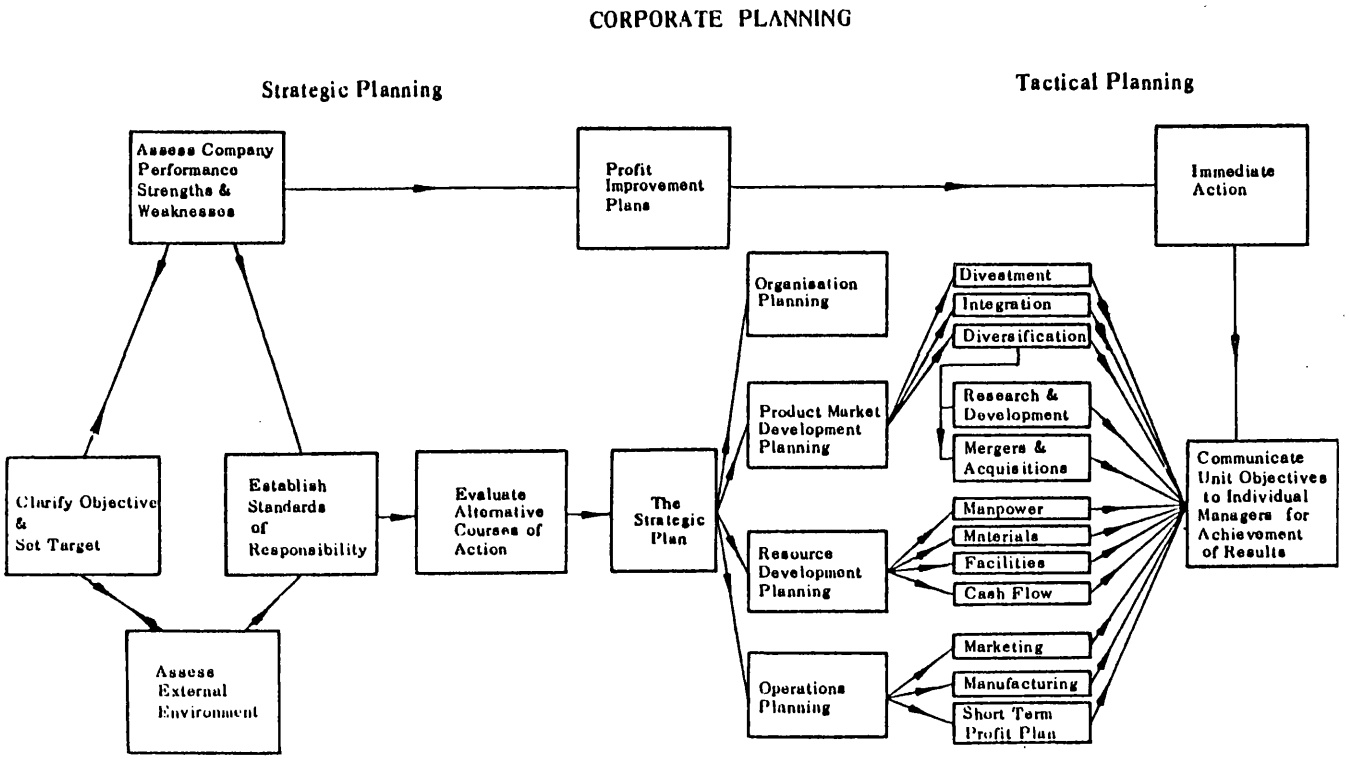



Figure 3.2 - Corporate Planning Model.

(Source: Urwick Orr and Partners, Reproduced in Hussey, 1974).

strategic and tactical planning although the dividing point is not clearly defined. It starts with the question of determining 'objectives', with interactive connections with 'company performance, strength and weaknesses', on the one hand and 'external environment', on the other. These relationships are not features of some theoretical observations (e.g. Argenti, 1974 and 1980) on the determination of objectives but, instead, on a later stage in the corporate planning process - the development of strategy. To do so might build in an unnecessary constraint in the development of objectives. However, it is difficult to argue that, in practice, informal consideration of these issues would not be made when objectives are set and, in any case if a strategy is set which does not achieve or even improves upon the objectives, then it is widely acknowledged that the appropriate step is to revise the objectives. Additionally, Hussey (1974) recommended that a comprehensive appraisal of strengths and weaknesses should be 'one of the first steps in the process of preparing long term plans and should provide both the platform from which the objectives are established and the baseline of the strategic plan.'

In his 1965 book, Ansoff described objectives as 'decision rules which enable management to guide and measure the firm's performance towards its purpose.' He added that a firm has both 'economic' objectives and 'social' or 'non-economic' objectives. The economic objectives were described as 'aimed at optimising the total resource-conversion process' and the non-economic objectives 'are the result of interaction among individual objectives of the firm's participants.' The economic objectives

have been given pride of place by Ansoff as 'forming the main body of explicit goals used by management for guidance and control of the firm.' He described the non-economic objectives in such a way that they are not really objectives at all, by explaining that they 'exert a secondary modifying and constraining influence on management behaviour.'

The Ansoff approach, as described in 1965, was summed-up by his belief that a firm was essentially a 'money motivated purposive social organisation' where, traditionally, the 'measure of success' has been 'profit'. He added that a firm 'seeks its objectives through the medium of profit' and through conversion of its resources into goods and/or services and then obtaining a return on these by selling them to customers. Thus, the resource conversion process mentioned earlier. He added further that, consequently, 'the primary economic objective was to optimise the long-term rate of return on the 'equity' employed in the firm.' This view was based on the 'key idea' of selecting profitability ('a measure of return on resources') rather than profit ('excess of revenue over costs') as the 'principal attribute'.

In stating his views on objectives, Ansoff accepted the opinion of Drucker (1958) that profit maximisation would be an unrealistic objective, although maximisation of the 'long-term return on resources employed' was the 'central purpose of the firm'. Indeed, in his own words, he based his 'system of objectives' on the following premises:-

'1. The firm has both (a) 'economic objectives aimed at optimizing the efficiency of its total resource-conversion

process and (b) 'social' or non-economic objectives, which are the result of interaction among individual objectives of the firm's participants.
2. In most firms the economic objectives exert the primary influence on the firm's behaviour and form the main body of explicit goals used by management for guidance and control of the firm.
3. The central purpose of the firm is to maximize long-term return on resources employed within the firm.
4. The social objectives exert a secondary modifying and constraining influence on management behaviour.
5. In addition to proper objectives two related types of influence are exerted on management behaviour: responsibilities and constraints.'

These views were based partly on the theories developed by Cyert and March (1963) who argued that 'organisations do not have objectives, only people have objectives.' Thus they concluded that the objectives of a firm could only result from a negotiated concensus of the objectives of the influential participants. However, it will be observed that Ansoff only allowed this approach to influence his thinking on the 'secondary' non-economic objectives.

Within this framework, Ansoff developed a theory that optimising the return on investment, relating to owner's equity, was the appropriate objective for both the short term and the long term in any firm. In regard to the short term, which he described as the 'proximate' period (3 to 10 years) where a 'firm is able to construct forecasts with an accuracy of, say, plus and minus 20 per cent', Ansoff regarded optimising the return on investment (R.O.I.) as being the correct answer. In regard to the long term, he also regarded optimising R.O.I. as the correct measure but sought to overcome a problem that 'accurate R.O.I. forecasts and measurements cannot be made for the long-term period' and he brought in a number of 'goals' as 'proxy-measurements.' These goals are tabulated in Fig.3.3. and it

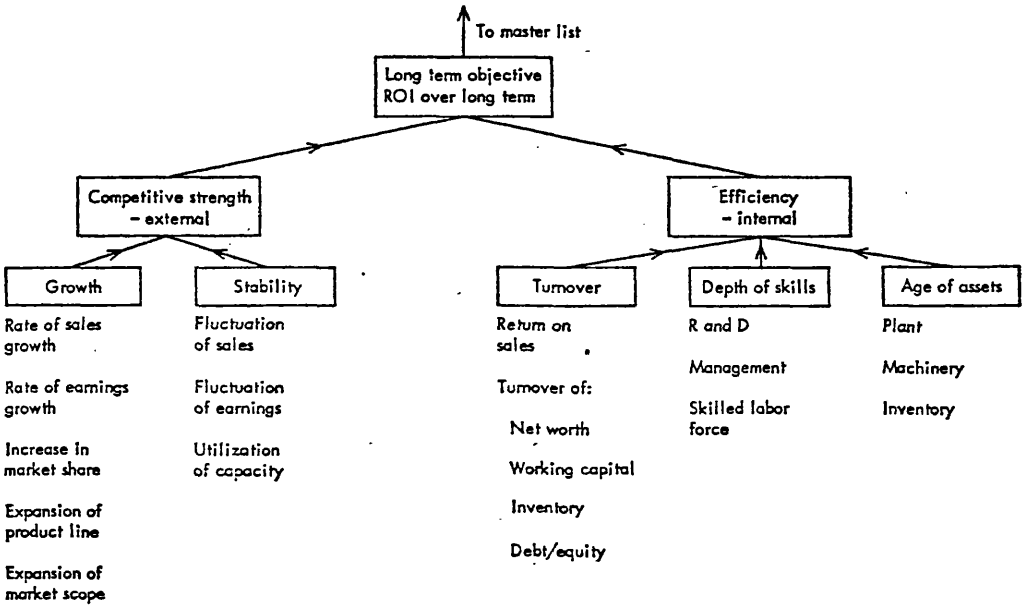



Figure 3.3 - Hierarchy of the Long Term Objective. (Source: Ansoff, 1965).

will be observed that they cover a large number of financial and non-financial issues. The theme of 'goals' was given a similar meaning by Ackoff (1970) who commented that 'Desired states or outcomes are objectives. Goals are objectives that are scheduled during the period planned for.'

However, in his 1979 book, Ansoff took a different view of the purpose or objectives of an organisation. He defended his 1965 views as being a correct 'prescription' but valid 'provided that it is applied in an appropriate organisational climate.' However, he moved to the opinion that it was necessary to recognise that the 'purposiveness' of any organisation 'ranges from aggressive optimisation to passive maintenance of the status quo.' Additionally, referring to profit and non-profit organisations collectively as 'Environment Servicing Organisations' (E.S.O.), he also recognised the value and need for corporate planning outside of a business context. Indeed, and somewhat akin to the Argenti approach noted earlier, he stated that 'It is safe to predict that the enormous and growing social investment will lead eventually to adoption of an ROI-like concept in the management of non-profit ESO's.'

Argenti (1974) preferred to use Return on Shareholders Capital (ROSC) as the correct measure of the objective of a company, regarding ROI as an unsatisfactory measure because the value of the assets employed will vary according to accounting practices. He argued that shareholders capital is a more precise measure and represents the 'purpose' of the company, measured in terms of 'the stream of dividends' received 'over the years together

with the value of the shares' when they are sold. He recommended that targets should be set which may be 'satisfactory', 'very satisfactory' or 'a minimum threshold', the first two choices being 'arbitrary' but which should be ideally related to a 'performance-risk curve', which would be valid in principle for all shareholders of the firm.

The Ansoff concept of non-economic objectives was converted by Argenti into 'ethological objectives' without any significant change of meaning. Argenti added that 'the ethos adopted by most companies was mainly conditioned by a consensus of opinion in society modified by the traditions of the company, legislation, the value judgements of top managers.' Thus, the Argenti approach to objectives was that a 'purpose' objective (i.e. ROSC) must be determined first and then 'ethological' objectives but with the ethos being dependent on the purpose and not vice versa. This latter point was justified on the basis that the ethos does not feature in the performance-risk curve for shareholders. Argenti added that questions of ethos would, therefore, only affect the strategy and not the 'purpose', i.e. the ROSC objective.

Hussey (1974), on the other hand, varied this approach by stating that there were four types of objectives, viz:-

'a) The primary, or profit, objective of the business, set in advance of strategy.

b) The secondary and mainly narrative objectives, again set in advance of strategy.

c) Goals which are time-assigned targets derived from the strategy.

d) Standards of performance (often identical with goals) assigned to particular individuals.'

The secondary objectives were said to 'describe the company's future identity' taking into account such matters as nature and scope of business, geographical sphere of operation and its relations with its employees, customers and society.' They would thus include non-financial objectives. Both the primary and secondary objectives were recommended to be regarded as 'map-grid references rather than as the bull of a dart board' whereas goals, which 'are derived from statregy' are considered necessarily as being 'always expressed in quantified terms' and 'defined against time' since they would be used to monitor performance.

Despite the use of the term 'secondary objectives' it is clear that Hussey did not share the Argenti view that they would not affect the 'purpose' objective. Instead, he described his four types of objectives as a 'concept' in respect of which 'each of the elements bears some relation to the others.'

He also tackled the difficult question of how long should a planning period be? i.e. for how far ahead should objectives and strategy be set? His view was that 'Each company should try to select a planning period which satisfies its particular and unique needs.' These, he argued, would need to take account of:-

- business cycles if they can be identified
- economic life of significant assets

- lead time of major strategic developments (a view held by Thomas, 1977)
- practicability of forecasting
- creating and maintaining management interest

He concluded his consideration of this issue by adding that whilst a company might produce a formal strategic plan (discussed later) for a period of as little as 5 years, which will mean setting objectives for such a timescale, it would, in many companies, be necessary to construct strategic scenarios for a much longer period (say 15 years) to give the strategic plan a wider perspective. This would be undertaken during the stage of strategy creation and selection.

Returning to the Urwick Orr model in Fig. 3.2., it proceeds to 'Establish Standards of Responsibility' as the next stage in the process. Hussey (1974) used the term policies to describe this element of the planning process adding that:-

'In any modern business there are hundreds of policies and procedures which must be applied if the organisation is to function at all. Definition provides a measure of uniformity, precision and control, and ensures that they are understood by all those who need to understand them. Where policies and procedures are of a "permanent" nature they may beneficially be enshrined in books of regulations and standing orders. Every company has a host of these permanent areas: think for a moment of the areas of personnel, purchasing, office stationery, and general administration - although in many companies they are often implicitly rather than explicitly defined.

Careful attention to this area is a useful aid to better corporate planning. Often definition of a policy will lead to a recognition that it is incompatible with the plans and needs changing: if it is not defined it may be unknown to the people who would realise that it is inappropriate. The point should not be laboured, for there are no new principles involved, but it is nevertheless worth making.'

This theme has been shared by many writers including Steiner and Miner (1977) who explained a policy as being management's expressed or implied intent to govern action in the achievement of a company's aim and also as an attempt to clarify the 'values' of an organisation. Thus, policies represent for some writers what ethos represents for Argenti, except that Argenti's view that ethos does not influence objectives does not appear to be wholly shared.

The question of the determination of 'values' preceding objectives and as a framework for policies did not feature in the Urwick Orr model and has tended to be underplayed in much of the literature. However, it was central to the Cyert and March thesis and thus to the thoughts of Ansoff in regard to non-financial objectives.

Thomas (1977), without mentioning the term 'values' itself, described this element well by stating that it is necessary for top management to 'perceive' the 'nature of the business they are in' and, in determining objectives, consider:-

'(i) What is the place of the firm in its industry and what is their expectation of where they would wish it to be?
(ii) In what activities or expertise would they regard themselves as being especially expert and/or having particular responsibilities?
(iii) Do they see the achievement of (i) and (ii) as being in any way dependent on achieving far greater control over their immediate environment?
(iv) Do they see themselves as having any particular loyalties or responsibilities of a local, regional or national character?'

Returning to the Urwick Orr model in Figure 3.2., its next stages are 'Evaluate Alternative Courses of Action' and 'The Strategic Plan'. These were related to earlier elements of 'Establish

Standards of Responsibility' (i.e. policies), 'Assess Company Performance, Strengths and Weaknesses' and 'Assess External Environment'. The interaction of the elements represents a reasonable summary of the process of developing strategy which is matched by much of the literature.

Hussey (1974), for example, in respect of the need to assess the external environment, considered that it was necessary for a company to have a 'perception of its future environment' which can 'become the basis of all long-range plans' and concerning which it would be necessary to make 'assumptions' about the 'course of future events'. In explaining these assumptions and their related forecasts, he added that:-

- Apart from 'providing a foundation for plans', they 'also have a coordinating effect' since they 'must be common to all areas of the company'
- 'Only assumptions which really affect the company should be included in the plans'. This implies that 'some form of screening process must be set up to select those factors which really do have an impact on the company' (He suggested that the planner or a 'think-tank' group of managers should do the screening)
- The assumptions should cover events outside the control of the company and those within, the latter thought by Hussey to be those needed at operating plans level rather than at the strategy stage.
- It is necessary to identify the perceived quality of the assumptions - leading eventually to the production of contingency plans. This requires that the assumptions

should 'be used in a number of positive ways as the basis for understanding the nature of the risks the company faces and for actions which eliminate or reduce those risks.

- 'The whole process of setting planning assumptions calls for much creative corporate thought. It is a task which should not be skimped, for failure to put adequate effort into planning at this stage may bring all the subsequent plans tumbling down like a house of cards.'

Sutton (1980) described the process of determining the assumptions concerning the external environment as 'Environmental and competitive audits', whereas Higgins (1980) used the phrase 'external appraisal' and stressed the impact of Government influence and social pressure. Thomas (1977) preferred the term 'threats and opportunities analysis'. He stressed the need for determining 'prospective changes in the environment, their desirability or otherwise, some estimate of probability, and of timing and scale, so as to enable an assessment to be made of how much time the firm has in which to deliberate and act, if this is what appears to be required.' He considered that it was important to ascertain 'the vulnerability of one's own firm to the loss of independence by a leading supplier or outlet.'

In regard to the assessment of company performance, strengths and weakness, or 'internal appraisal' (Higgins, 1980), Hussey (1974) developed a comprehensive framework which involved an appraisal of the following items:-

'a) Trend of results

b) Sources of profits

c) Risk

d) Manufacturing activity

e) Rationalisation of resources

f) Organisation and Management Structure

g) Financial resources

h) Corporate Capability

i) Systems

j) Use of resources'

Hussey stressed the importance of this strengths and weaknesses appraisal, and described it as a 'corporate appraisal'. He noted that this process would produce a 'capability profile' (also noted by Ansoff - 1965) for each activity undertaken by the firm. This was in line with the suggestion made first by Denning (1971) and closely related to the concepts of identifying 'discete competence' and 'product differentiation' as noted by Thomas (1977).

However, in terms of determining strategy, as a prelude to preparation of 'The Strategic Plan' (in Figure 3.2.), in the light of the external and internal appraisals, it is clear from references contained within much of the literature that the work of Ansoff was particularly important.

In an article published in 1972, Ansoff described strategy as 'decision making rules for the guidance of organisational behaviour'. This was explained further in his 1965 description

of the concept of strategy which:-

'a) provides a broad concept of the firm's business,

b) sets forth specific guidelines by which the firm can conduct its search, and

c) supplements the firm's objectives with decision rules which narrow the firm's selection process to the most attractive opportunities.'

It is clear from the above (and generally accepted in the literature) that Ansoff regarded strategy as the direction in which the firm has to travel in order to achieve the objective, i.e. the means to achieve the ends. He added that the choice of strategy would be heavily dependent upon the external and internal appraisals discussed earlier. What was particularly important about the Ansoff approach, however, was his concept of the 'cascade' approach to 'gap closure' which he summed up as the 'adaptive search method for strategy formulation.'

Under Ansoff's 'cascade' approach the first step was to 'decide between the two alternatives: to diversify or not to diversify the firm.' The second step was to 'choose a broad product-market scope for the firm from a list of broad industrial categories.' The third step was to 'refine the scope in terms of characteristics or product markets within it.' This approach of 'successive convergence' was described as being more suitable than the 'usual method of management science' which, in Ansoff's words, required 'emuneration' and 'evaluation' of all the 'final alternatives.'

Within each step of the 'cascade' Ansoff considered that the procedure would be to:-

1. Establish a 'set of objectives'.
2. Estimate the difference (the 'gap') between the aspired results and the anticipated results (described by Ackoff, 1970 as the 'reference projection') if the firm were to continue with the current (perhaps implicit) strategy. This would be undertaken on a broad and estimated basis.
3. Propose 'one or more courses of action (strategy)'.
4. Test these for their 'gap-reducing properties' and accept a course 'if it substantially closes the gap; if it does not, new alternatives are tried.'

Ansoff added that 'no assurance is obtained that the decision rules selected represent in any sense the best of all possible choices.' He thus described the process as having been designed to produce a result which is really 'satisfizing rather than optimising its behaviour.'

He placed great emphasis on the significance of the diversification decision using what he described the 'commonly used' names of the various types of diversification alternatives - 'horizontal' integration, 'vertical' integration, 'concentric' integration (where there is a 'measure of common thread' through 'marketing or technology or both') and 'conglomerate' diversification (where there is 'none'). As part of this consideration he identified the importance for 'synergy' as a component of strategy, where the 'firm seeks a product-market posture with a combined performance that is greater than the sum of its parts'; or as Thomas (1977) put it later 'the

opportunity to exploit opportunities for improved performance arising from joint as opposed to separate action in a combination of product markets. Under the Ansoff approach four 'types' of synergy were noted viz:-

1. Sales synergy - including common distribution channels, sales administration, warehousing, advertising, sales promotion and past reputation.
2. Operating synergy - including higher utilisation of resources, spreading of overheads, common learning curves and 'large-lot' purchasing.
3. Investment synergy - including joint use of plant, common stocks, transfer of R & D, common tooling and machinery.
4. Management synergy - including pooling of competence and knowledge.

Argenti (1974), whilst accepting that 'It is the opening and closing of the gap between target results and forecast results which acts as the signal for a review of strategic decisions', has stated that the 'product-market strategy' element of the Ansoff approach was not sufficiently comprehensive. He has preferred (similarly to Steiner, 1969) to postulate the 'strategic structure of a company' which would be 'the totality of its individual strategies.' The elements of the strategic structure which he identified as being included in the strategic structure were markets, products, physical facilities, services, research, finance, employees, supply lines, distribution and management.

Argenti argued that there were five methods of determining a strategic structure, viz:-

(a) 'Hunch (or intuition or entrepeneurial flair)'.

(b) 'Asking business questions' such as 'what business are we in' providing a 'provocation to wider thinking' and a 'stimulous to creative thought'. Argenti accepted that this was not, in itself, an analytical or creative tool but did not dismiss its use.

(c) 'Budgets' as a form of bottom-up planning. Argenti stated in this regard that 'Budgets should come out of the corporate planning process rather than form an input', thus rejecting this method.

(d) 'Project Appraisal' which Argenti again described as a bottom-up approach, which involved a manager in submitting a project to his superiors who would evaluate it. Argenti considered that such a process would be inadequate in the absence of a strategic structure.

(e) 'Strategic decision-making systems' which should be used in the light of six 'factors affecting strategic decision.' These factors, not surprisingly, were:-

- purpose (i.e. objectives)
- ethos (i.e. policies)
- expected performance (for the gap analysis)
- strengths and weaknesses
- changes in the environment
- risk

The strategic decision making systems were boiled down by Argenti into two types. The first ('in the absence of entrepeneurial

flair') would be to take ad hoc decisions 'whenever it was thought that a decision should be taken' and the second would be to design a system that explicitly takes into account each of the six factors noted above. In this latter regard, Argenti concluded that:-

'Given an infinite horizon there are infinite structures. It is simply not possible to evaluate more than a very few of these alternatives and, I am suggesting, one way of reducing the number of alternatives to a manageable few is to eliminate all those that do not make use of the company's strengths or fail to correct weaknesses or fail to deal with threats or to exploit opportunities. These are four of the criteria; a fifth is that any proposed structure must be one in which the managers feel confidence - confidence that it is a practical proposition in the real world, confidence in its potential to meet the performance-risk curves for the company. Furthermore the managers must bear in mind that in the future the company may not be able to take many of the actions that it now takes because of the increasing severity of the constraints imposed upon it by society and reflected in its ethos.'

Thus, he suggested that there were six criteria by which to test any proposed strategy, viz:-

'1 Can it be shown that this strategy gives the company a performance-risk curve similar to the one selected by its shareholders (and managers, employees, etc.)?

2 Has the company the necessary competence to carry it out?

3 Does it eliminate or reduce the company's outstanding weaknesses?

4 Does it allow the company to exploit any opportunities that may occur in the future?

5 Does it sufficiently reduce any of the severe threats that may face the company?

6 Does it call for any action that is or may become objectionable on moral or social grounds?'

These six criteria formed a 'sieve' through which any proposed strategy would be passed and Argenti considered that 'ideally only one will do so but in practice several will' and may have to be a matter of personal judgement by the managers. This leads on to the stage of evaulating a short list to 'determine

whether any of the remainder are likely to have the performance-risk profile that the company requires' leading to the final selection.

In respect of the evaluation stage of the proceedings, Argenti has argued that company models are particularly valuable (these will be discussed in Chapter 4), particularly since each potential strategy needs to be tested as to risk. By following this system, Argenti has considered that a company can specify 'both the strategic structure towards which the company is to move and the individual strategic actions which will bring it about.'

The approach to strategy determination suggested by Hussey (1974) started off with the assumption that 'the company has set its objectives, defined its social responsibility, established all the assumptions on which it will base its plan and now fully understands its strengths and weaknesses. He has fully supported the concept of 'gap analysis' and described 'filling the gap as what strategy is all about.' He considered that basic strategic alternatives can be classified according to the matrix given in Fig. 3.4.

Thus, strategic decisions could be related to:-

(a) Improving the performance of the company's existing products in the markets in which it currently trades.

(b) Providing new products to current markets, this being 'often a logical way to exploit particular marketing knowledge and capability possessed by the company'.

| Product \ Market | Current | New |
|---|---|---|
| Current | (a) | (c) |
| New | (b) | (d) |

Fig. 3.4. Analysis of Strategic Alternatives (Hussey)

(c) Selling current products to new markets which is an 'area where synergy can be fairly high, as development here can often bring economies of scale in production and general management.'

(d) Diversification.

In dealing with these alternatives, Hussey debated three different philosophical approaches towards making the final choice of strategy - 'satisficing, optimising and adaptavising' as developed by Ackoff (1970). The satisficing approach was, in effect, similar to that proposed by Ansoff since, although he postulated the setting of optimal objectives for a firm, his adaptive search process produces a result which is 'satisfizing rather than optimising' its behaviour. This was because a course 'is accepted if it substantially closes the gap'. However, it is interesting to note that the Ackoff description of 'satisficing' was that 'It usually yields conservative plans that comfortably continue most current policies, correcting only obvious deficiencies. Such planning therefore appeals to organisations that are more concerned with survival than growth.

Hussey (1974) added that satisficing planners produce 'one point' plans i.e. plans containing a single set of strategies and related forecasts and commented that 'Thus an artificial certainty is given to all planned actions. As it is assumed that the organisation is flexible enough to cope with the unexpected, there are seldom formal systems for monitoring and controlling the plans.'

Hussey stated further that the 'optimising planner takes a completely different view of his job. He aims always to take the best course of action and relies heavily on operational research and mathematical models. He formulates all of his objectives and goals in quantified terms - and tends to ignore all those which he cannot so quantify.' Ackoff's view on this was that 'This can distort the value of his work and produce justifiable discomfort in the consuming managers who must moderate quantitative results with their own qualitative judgements on important problems which have not been taken into account.'

Hussey has declared himself as having a bias towards 'adaptavising planning' although he added that 'as in so many other aspects of management there is probably no one correct measure.' He explained that:-

- 'Adaptavising is accompanied by the belief that the main value of planning lies in the process and not the plans themselves'
- 'The adaptavisor believes that another main purpose of his plans is to prevent crises from arising - to adapt the organisation and systems so that difficulties are avoided'

- The adaptavisor identifies certainty, or virtual certainty, where 'the best solution is to ensure that adequate plans are made and actions committed so that the company may exploit these events.' He also identifies risks, in terms of 'varying degrees of probability' where he 'will prepare a series of contingency plans to cover every foreseeable possibility'

Hussey's views on the determination of possible strategic alternatives involved the 'management team rather than the planning staff alone' and are summed up in the following quotation:-

'There are probably three main schools of thought over the way in which the strategic net should be cast when the company begins to fish for its alternatives. The first is that it should be solely an opportunist. Full-scale selection and screening techniques as described here are not required under these circumstances: all that the company need do is to try to keep itself in the situation where opportunities come its way. The second school of thought is that the net should be thrown as wide as it will stretch in an effort to draw in every single opportunity that it is humanly possible to identify. This needs a very extensive screening and evaluation process which, for many companies, may be beyond their resources. The third school of thought is that most chief executives are only able to work in certain industry areas and have a definite concept of the type of activity they would be prepared to take their companies into. In effect the broad field is described in the company's objectives, and it would be wasting effort to try to fish for opportunities in other areas. Even so, the size of the fishing ground may still be very extensive. As with so many other aspects of corporate planning, the 'right' answer is the one that fits the company. And as the company develops and changes so it may change its viewpoint and find another 'right' answer.'

He described screening out strategic alternatives, arranging them in recommended selection order and evaluating their prospects as 'an important staff planning function' but that the task of final selection should be dealt with by the management

team. His approach to the processes of screening, grading and evaluating were largely geared to the use of computer models and particularly those which use a simulation approach and which thus enable each alternative to be 'evaluated on a case study approach' whilst, at the same time, considering 'sensitivity' and 'risk' analysis. The use of such models will be considered in Chapter 4.

Returning to the model in Fig. 3.2., it is now appropriate to consider 'The Strategic Plan' which follows the determination of strategy. Argenti (1974) did not deal specifically with the need for a strategic plan and moved from determining a strategic structure to setting targets for parts of the firm. However, in his 1980 book, he perceived the need for the preparation of a 'five-year budget that shows everyone how the performance of the whole company - the existing parts of the company together with any new additions called for by the strategies - matches up to the corporate targets, how the resources are to be allocated, how the total cash requirements are to be met, and so on.'

Hussey (1974), considered the content of a strategic plan in detail, however, without confusing matters by the use of the term 'budget'. He developed a framework for the content of the strategic plan which is summarised below:-

a) Introduction

Describing the scope of the plan and its relationship with other plans

b) Assumptions

Those on which depend a proper understanding of the plan

c) Primary Objective

'A statement of the profit objectives of the company, expressed in the way that is most useful for the company'

d) Secondary Objectives and Constraints

'The statements of purpose and other similar objectives should be clearly stated, as should the self imposed constraints under which the company intends to operate'

e) Strengths, Weaknesses : The Current Situation

'The main strengths and weaknesses of the company as defined in the corporate appraisal and subsequent work'

f) Statement of Expected Results

Containing 'the key figures using the company's standard accounting definitions'. This should 'illustrate profits, cash flow, and the main efficiency ratios'

g) Risk and Sensitivity

'Although risk should have been taken into account during the strategic selection process, whatever strategies are finally selected will still carry some risks'

h) Strategies

- By 'present operations' and the 'strategic alternatives' described earlier with their sub-divisions, as appropriate.
- By 'business centre' for each.
- By 'geographical area of operation'
- By 'order of importance to the company'

This summary should give an account of the main actions proposed in the fields of 'marketing, production, acquisition and divestment. It should also show organisational changes which result from these strategies, manpower policies, financial policies and

where relevant, ancillary policies such as public relations.'

i) Contingency Strategies

Details of 'strategic courses of action reserved for contingency purposes.' He added in this regard that 'In ideal circumstances, every strategy should have a portfolio of contingency plans' but 'in practice it is usually necessary to concentrate on a few key areas, where failure would have a significant effect.'

This structure took Hussey into the areas of financial planning, organisation and manpower planning as elements of the strategic effort. He regarded each as one of the components of strategy. In regard to financial planning, he considered that financial plans will 'positively identify the financial needs, problems and opportunities' which 'has real value when it is overlaid by the financial strategy which will involve the selection of the means of financing, management of surplus funds, ways of avoiding the incidence of taxation and changes in the company's general policies.' He added that 'Financial strategic decisions may act as a constraint on broader strategic thinking drawing the investment line which the company may not overstep' or acting as 'a goal to stimulate further capital investment so that liquid balances are reduced.'

Organisation and manpower planning were seen similarly with a need to develop a strategy for each to ensure that they match future needs. The manpower planning was stated as requiring, inter alia, a personnel strategy, which should include an

industrial relations plan.

Moving away from the strategic area, the model in Fig. 3.2. takes us into the area of tactical planning, although the model, itself, is unclear as to the precise dividing line. This is generally regarded as relating to the development of the detailed 'action' plans (or 'programming' - Anthony and Dearden, 1980) required after determination of the strategies and the strategic plans, and can presumably be related to the four headings in the Urwick Orr model - 'Organisation Planning, Product/Market Development Planning, Resource Development Planning and Operations Planning' (see Fig. 3.2.).

This approach was similar to that discussed by Ansoff (1965) who recommended the creation of three plans after the preparation of a 'strategic plan' which itself summarises 'objectives, strategy and overall resource allocation.' The three plans he recommended covered:-

| Resource Development Plan | Product - market Development Plan | Operating Plan |
|---|---|---|
| Organisation | R & D | Manufacturing |
| Personnel | Acquisitions | Purchasing |
| Finance | Market development | Distribution |
| Facilities | | Marketing |

This element of the process is often described under a single heading - the preparation of 'Operating Plans'. Indeed this description was used by Hussey (1974) as his next stage in the process of corporate planning. He distinguished two types of operating plans - long term and short term and described these elements of the process as 'One of the foundations of a sound

corporate planning process' which places 'each operational area within the overall strategic framework.' The length of time covered by the long term operating plans was considered to be about five years but perhaps even longer with full details of what is expected to occur, particularly in terms of marketing and production. The case was made strongly for full involvement of the managers responsible for the implementation in this element of the process. Hussey added that 'having decided the broad parameters, the chief executive should expect the line managers themselves to demonstrate what they should do with the area of business entrusted to them and how they intend to go about providing their share of the action which will attain the corporate objectives.'

Thus, the tactical decision making, within the framework of the agreed strategy, would be left to line management down to the level appropriate to the organisation. The level, according to Hussey was 'any major unit' where the 'prime responsibility to prepare a long range (operating) plan must fall upon the man in charge' with the assistance of 'all senior managers with a major responsibility for a part of that unit.'

In regard to short-term operating plans, Hussey described these as the 'tactical plans' and as an expansion of 'part of the long-range (operating) plan', probably covering a period of 'a year'. The period of a year was chosen by Hussey because 'a year is a reasonable amount of time to handle in detail and has the added advantage that it can be closely linked with the annual budget. Thus, the annual operating plan and the budget

become two sides of the same coin, and together provide documentation that is capable of tight management control.'

Hussey related both the long and short term operating plans to project plans which 'have a time-span which is related to the project itself.' These project plans cover not only investment projects but also 'marketing of a new project' and 'development of a new technology.' He added that 'Ideally there should never be a need to investigate a project unless this has appeared in the long-range plans' but he accepted that this can happen particularly where 'new opportunities' or 'environmental changes' arise. He considered that project planning needs to be 'a sub-system in the corporate planning process' the components of which are 'a method of short term capital budgeting; a routine which ensures that each step in the project planning process is undertaken at the right time; rules for the appraisal of capital expenditure; and a method of control.'

This tactical area of corporate planning leads into the question of implementation of the strategy through implementation of the 'action' or 'operating' plans and, thus, the stages of monitoring progress and taking control decisions. These latter stages, which were not identified in the Urwick Orr model (Figure 3.2.), involve the use of budgets which are discussed in procedural terms in Chapter 4.

Hussey (1974) regarded budgets as follows - 'I like to think of the annual budget as the quantification in financial terms of the annual operating plans, which itself derives - as we have

seen - from the long range plans.' This approach was similar to that of Higgins (1980) who considered that the budgeting process 'provides the essential quantification of the first year of the plan.' Hussey went on to explain that actual results should be monitored not only against the budget but against the operating plan and, thus, against the strategy. He made the point strongly that, from the monitoring element, emerges the need for corporate planning to be a rolling process with a need to recognise that the operating plans and even the strategy will need to be revised on a regular basis, usually annually. However, he added that 'When a fundamental change occurs it may be necessary to update a part or all of the plan outside the normal planning cycle - a task made easier where the company has contingency plans.'

He also recommended preparation of a yearly report on the planning activity as part of the corporate plan revision cycle. This report would be designed to identify

- 'A comparison of progress of the company against its long-range plans, including a note of revisions to plan which may have been made from time to time.
- An analysis of the progress of the past year, its successes or failures and the reasons for variances.
- The implications of the past year on future plans.
- Ways in which the planning procedure may be improved.'

It is clear that the process of corporate planning as discussed in the foregoing has obvious organisational implications. No organisation could embark upon such an all-embracing management process without it affecting the management style and, according to changes in strategy, the organisation structure. Indeed, it

was observed by Chandler as far back as 1962 that strategy ('in time') determined structure.

Argenti (1974) argued, in respect of the structural changes required to implement corporate planning, that 'there are probably three stages of development through which corporate planning will pass in any company.' Firstly, it would have no formal system and would either not be making strategic decisions or would make them in an ad hoc way. Secondly, as the company grows, it would 'either form a planning committee, or nominate a systems supervisor, or appoint a corporate planner or form a corporate planning department.' At this stage, Argenti argued that 'the chief executive will play a major role in and show close concern for, the corporate planning activities.' The third stage was said to occur 'when corporate planning becomes part and parcel of the way the company is managed.' At this stage, Argenti argued that corporate planning 'becomes informal again but ingrained and habitual among the senior executives.' He continued by adding the following statement:-

> 'It will then no longer be necessary to employ a formal system designed to force management attention on to strategic questions. Indeed the senior executives may come to accept that strategic planning is their main task and will increasingly delegate short term management problems to carefully chosen subordinates. When that stage is reached, and few companies in the World had reached it by the early Seventies, it may be possible to eliminate the post of corporate planner and to abolish the corporate planning department. At least it may be desirable to move the corporate planner into a Management Services Department along with other specialists in operations research, behavioural science, commercial law and so on ..... from there he will be able to advise on planning technicalities.'

This third stage, seems to the author to be rather idealistic and it is generally accepted that the process of corporate

planning can only be properly effected with the preparation of formal corporate plans under the coordinating influence of a corporate planner/department. Indeed, Hussey (1974) remarked that 'Much of the impact of corporate planning throughout the World still depends upon the professional corporate planner.' He argued that it was necessary for the corporate planner to be at the right level of seniority, a person who would be 'on equal terms with the senior management of that company. He should be a member of the board or management executive committee.' This was considered necessary because he needs to develop a 'rapport' with the chief executive and should function as 'an extension of the chief executive' with 'mutual support and confidence.'

He continued by arguing that the corporate planning function has to operate at both the 'strategic (the duty of the chief executive and his team) and the operational (the duty of line managers) levels' and facilitate their integration. He added the very telling remark, however, that

> 'At all times it is worth remembering that the real planners in any company are the managers. The job of the planner is to make things happen; to coordinate all planning efforts; to help the company more clearly see the issues that affect its future and the alternative paths it may take to systemise planning procedures in the company, including control methods; to analyse and evaluate various issues; to draw the plans together. It is no part of the planner's job to replace any manager's duty to perform the planning elements of management.'

This description was followed by the suggestion that 'a large planning department is something to be avoided' with the contention that 'As a general principle it may be said that the employment of every additional person in the planning department is a relative degree of failure, something to be undertaken only when it is essential that no other answer is possible.' Instead, Hussey argued that the planning process should involve 'as many of the company's employees in the system as is humanly possible.' This was essentially a modular approach whereby the various departments in an organisation are responsible for their own elements of the process with the corporate planning department performing a coordinating role. This included the provision of specialist advice which Argenti (1974) argued should be obtained from existing specialist departments, rather than by adding specialists to the corporate planning department.

Additionally, Hussey considered that, in larger companies with divisions, subsidiaries, etc., it was appropriate to 'put divisional planning managers in the major divisions or subsidiaries of the company, reporting to the chief executive of that division or subsidiary, with a functional relationship to the central planning manager.'

In summary, it is clear that the process of corporate planning represents a considerable step forward in the field of management; so much so that it represents a recipe for a 'way of management' which is complete in itself absorbing all other processes and techniques. As such, it may be that it cannot be followed by a better approach, but merely further refinements

within the scope of the overall process as discussed.

Such a statement begs the question 'has corporate planning paid-off in the organisations in which it has been introduced?' There are relatively few answers to this question to be found in the literature; it clearly being a very difficult question to answer. What published responses exist stem from surveys of organisations as distinct from the sort of in-depth study that is required to be taken in this research (i.e. in respect of the BRB).

In the USA there have been a number of such surveys. That published by Ansoff, Brandenburg, Portner and Rodosevich (1970) provided statistical evidence that 'planning paid off' in connection with the success of acquisitions in American firms. In respect of relative economic performance, Bowman added in 1976 that the return on investment in large firms engaged in corporate planning (over a period of five years) was better than that for firms which did not. The differences were significant in that the median ROI for the top quartile - those who were engaged in corporate planning - was 17.1% and the bottom quartile - those who did not - was 5.9%.

Thune and House (1972) conducted a survey of six U.S. Industrial groups involving what they described as 'formal' and 'informal' planners, measuring their performance in terms of increases in sales, increases in earnings per share, increases in earnings on capital employed and increases in earnings on assets. Their results showed that formal planners performed better than

informal planners.

An international survey, covering firms in Australia, Canada, Italy, Japan, United States and United Kingdom, conducted by Steiner and Schollhammer (1975) discovered that in all countries except Japan, at least 75% of the planners consulted were not dissatisfied with the results they had obtained. Further their satisfaction was generally greater in firms which had adopted formal corporate planning arrangements and had more experience of that process.

In the United Kingdom, Shawki and Grinyer, conducted a survey in 1974 which covered 48 companies covering many different industries and with annual sales varying from £5m to £1500m (median £150m). This survey sought to ascertain what the managers of the companies perceived were the main improvements in general performance as a result of corporate planning. Overall, 44% expressed satisfaction with their planning systems with perceived benefits in some areas being particularly significant. These perceived benefits are summarised in Table 3.1.

Clearly, the managers responding to the survey were of the opinion that there were identifiable benefits, although it is interesting to note that less than half perceived an improvement in profits and growth. This survey confirmed the results of an American survey conducted by Aquilar, Howard and Vancil in 1970.

A later survey(conducted in 1976) by Higgins and Finn called for

| Perceived improvements in - Type | Per cent of respondents |
|---|---|
| 1. Awareness of problems, strengths and weaknesses | 85.4 |
| 2. Profit and growth | 47.9 |
| 3. Information and communication | 39.6 |
| 4. Systematic resource allocation | 35.4 |
| 5. Coordination and control | 29.2 |
| 6. Morale and industrial relations | 16.7 |
| 7. Quantification | 4.2 |

Table 3.1. Perceived Improvements Resulting from Corporate Planning (Shawki and Grinyer)

subjective assessments of a marginally different nature. They obtained the cooperation of 56 UK companies with annual sales from £15m to £2000m and asked the Planning Executives and the Chief Executives to assess success of their company's corporate planning on a four point scale. The Planning Executive's views are summarised in Table 3.2.

| | Length of Time (i.e. Experience) in Planning - Yrs | | | | |
|---|---|---|---|---|---|
| Success of Planning | < 2 | 2 - 5 | 6 - 10 | 7 - 10 | Total |
| | % | % | % | % | % |
| Great Success | 0 | 0 | 3 | 3 | 6 |
| Success | 3 | 13 | 19 | 19 | 54 |
| Limited Success | 0 | 19 | 16 | 5 | 40 |
| Failure | 0 | 0 | 0 | 0 | 0 |
| | 3 | 32 | 38 | 27 | 100 |

Table 3.2. Success of Planning - Planning Executives' Views (Higgins and Finn)

This table indicates a generally favourable attitude in the part of the Planning Executives which was surpassed by the views of the Chief Executives. The latter group were asked a slightly different question, the results of which appear in Table 3.3.

| Values of Planning | Total |
|---|---|
| | % |
| Great Benefit | 51 |
| Benefit | 47 |
| Doubtful Benefit | 2 |
| No Benefit | - |
| | 100 |

Table 3.3. Values of Planning - Chief Executives' Views (Higgins and Finn)

Clearly, the published evidence suggests that corporate planning has generally 'paid off'. It will be seen in later chapters whether that generalisation can be applied to the British Railways Board.

## 3.2. Corporate Planning Process - A Synthesis of General Theory

It would be quite possible to conduct the research in the four chosen organisations and produce information which can be related back to the theoretical position expressed in the previous section. However, as intimated at the beginning of this chapter, this might tend to be somewhat unstructured and possibly confusing. Consequently, it is intended in this section, to prepare a brief synthesis of the theoretical situation, based on a model of the general process, or what the author perceives to more or less constitute the general process of corporate planning.

This will have a two-fold benefit. Firstly, it will be a useful model in itself, rather more so than any examined during the literature search. This observation is not meant to be a fundamental criticism since most academics in this field have produced useful models for parts of the process and have often explained these in depth. Secondly, it will provide a solid foundation for the practical comparison ensuring a common understanding of terms and their relationships. However, this does not mean that no cross-referencing will be made in later chapters against specifically attributed items in Section 3.1.

The author's general normative model of the process of corporate planning is provided in Fig. 3.5. It covers the process within the various definitions given in Section 3.1. and within the author's own definition which is as follows:-

> Corporate planning is the process by which a business or other type of organisation can define and continually re-define its overall role, purpose and direction, and systematically move towards and monitor their achievement.

As such, the model confirms that the process of corporate planning is meant to be a total way of management, not just a technique or even a collection of techniques. To appreciate this further it is considered by the author to be useful to examine briefly each of its stages in turn and then take a fresh view of the model in its totality.

It will be seen that the model starts with the determination of the 'needs' of an organisation, which manifest themselves in the

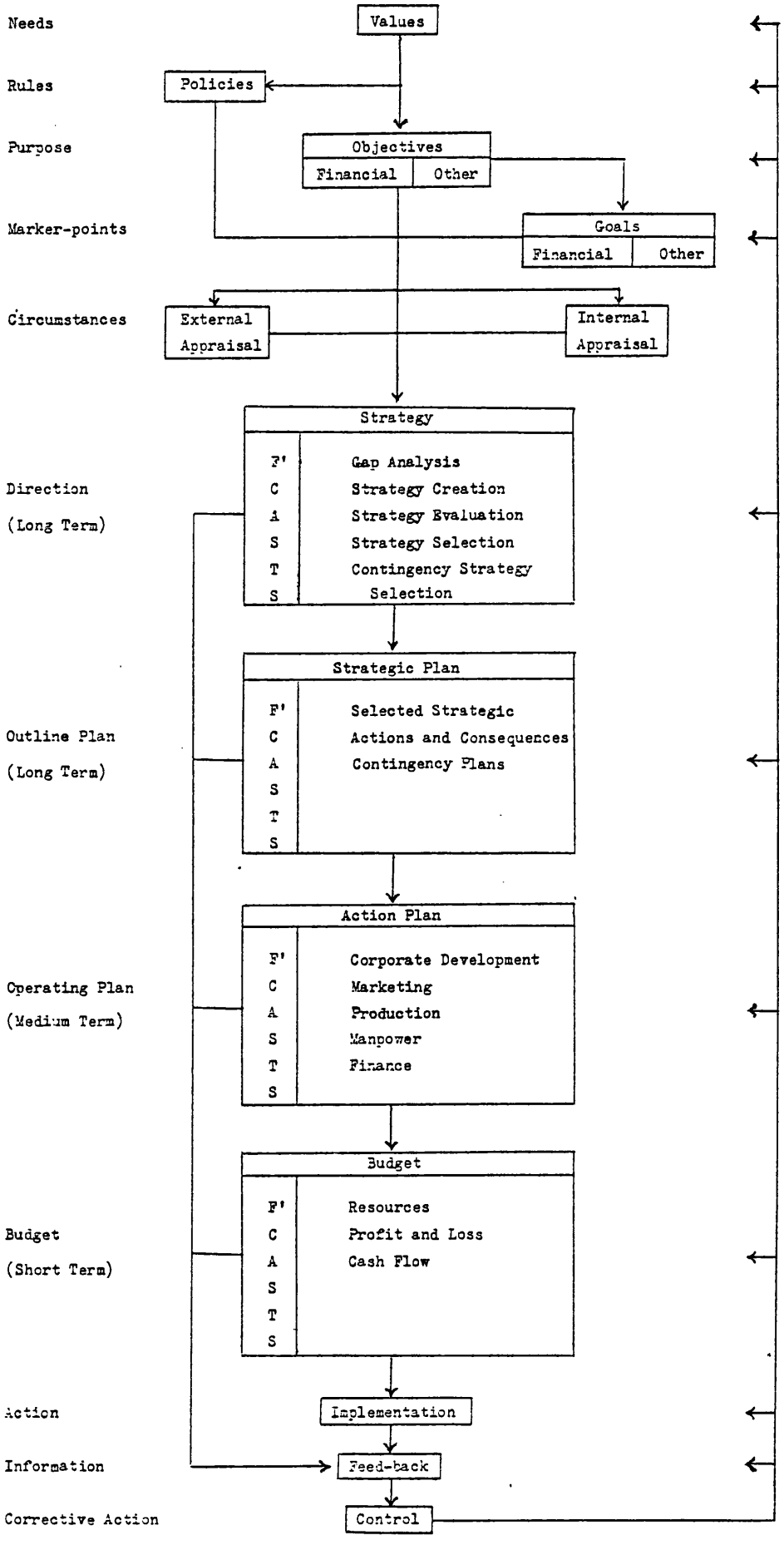



Figure 3.5 - A Model of the Process of Corporate Planning.

shape of the 'values' which may have taken a long time to evolve. These values may be extremely varied in nature and cover a host of items which suit the requirements of the organisation. For example, it might have developed a fairly clear-cut social and environmental philosophy which is linked to attitudes towards product quality, service, location of markets, disposition towards external rules and regulations, employment of manpower, use of materials, environmental pollution and many other matters. Further examples of values may be disposition towards change, survival consciousness, and attitudes towards growth rates, market position, technical innovation and financial gearing.

In a business corporation or other non-public organisation, these values will be influenced mainly by those of its top management, shareholders, employees, customers and Government. As the power balance between these sections changes, so will the values of the organisation change. In nationalised industries and other public organisations, the nature of the influences is similar but Government has more influence and top management less. In these circumstances, values are often partially imposed by rules and regulations which reflect the values of another tier of management (i.e. the Government) which equally often have fundamentally different motives, aspirations and timescales to those of commercial organisations or, indeed, to the Boards of the nationalised industries. Ideally, these values should be discussed and agreed before the later stages of the corporate planning process are undertaken.

The values attempt to sum up major influences and set a

consistent pattern of response to them. In an ideal world, this would be dealt with at the outset, since the response is critical to the further elements of the model. Since every step of the model is subject to a large number of influences, the key issue would be to sort out and weigh the major influences at this point into a summary of values which then become guiding principles. This aggregation of values is not easy. Even in theoretical terms, there are difficult conceptual problems which relate to the quantification and comparison of qualitative variables such as ambition and emotions. In the practical world, this is further complicated by the political processes that either explicitly or implicitly, openly or covertly, affect the determination of values. However, irrespective of the method by which they are determined or whether they are expressed in formal or informal terms, these values are a necessary pre-requisite for the determination of 'policies' and 'objectives'. Moreover, there can be little doubt as to their existence if objective setting is undertaken in an explicit form. They represent in many ways the culture of the organisation and the overall response to the question 'what business are we in?' They relate fundamentally to the management style and are often the result of an evolutionary process. In practice, values held are frequently implicit rather than explicit, but the decision-makers should strive to make them more explicit. This eases the conceptual problems of measurement and comparison, and facilitates the development of a questioning approach which is important in corporate planning.

Following the steps in the model, one proceeds to the term 'policies', which may be defined for the purpose of this exposition as a set of internal, often ethical, rules and regulations which stem from some of the values and act as a set of constraints on the strategy. Like the values, the policies would normally be quite varied in nature and might cover, in considerable detail, attitudes towards such matters as capitalisation, quality of product and service, employment in a particular area, ethical codes of practice, obedience to the laws of any country, trade union membership, marketing in a particular area, safety and advertising. It may be considered from this explanation that the policies can be merely repetition of the values. Indeed, to some extent they are, but there are distinct differences. Values provide an overall scale of needs and aspirations, and policies provide rules and regulations on how the organisation is to behave in society. Thus, policies may provide detailed analyses of the vital constraints on the running of the organisation. Even in a formal corporate planning environment, values and policies may be more often implicit than explicit but, ideally, they should be the latter, since implementation of plans is largely dependent upon the understanding of those responsible for the achievement of the 'objectives'.

This is even more necessary in the determination of 'objectives' which has been described in the model as the 'purpose' of the organisation. The expression of objectives allows the conversion of the values into concrete anticipated results. Objectives should not be pious hopes, but represent the expected

and well defined attainment level given the 'strategy' and 'strategic plans' which follow (as influenced by the policies) and the level of ambition created at the values stage. They should be fairly long term and may cover about 5 years, 10 years, 15 years or even longer if considered necessary. Most organisations would consider 10 or 15 years more than adequate, bearing in mind that, as will be seen later, corporate planning is an ongoing process. However, the length of time is best determined by the nature of the organisation and its competitive environment. A further determining factor should be the nature of the main assets employed and, in particular, their expected useful life. Thus, for example, a bus operator renewing his fleet every five to eight years may be happy to look 5 to 10 years ahead. On the other hand, a manufacturer of petroleum products requiring heavy investment in refinery plant might require a much longer term view, to justify the potential of his prime investment.

As observed in Section 3.1. some authors have expounded the primacy of financial objectives, in the shape of such outcomes as return on investment. Other such objectives could be return on capital employed, return on share capital, absolute level of profits, absolute value of assets, earnings per share or level of dividend. These issues are very important and one or more financial objective will almost certainly be chosen as part of the total package of objectives for any organisation. However, the author would contend, with some support from the theories examined in Section 3.1, that corporate planning is incomplete with financial objectives alone. The objectives of an organisation should embrace other facets of the values, as

relevant and be as specific as possible in the form of a list of aspired outcomes covering all key issues. These might include various outcomes such as financial (perhaps more than one), market share and distribution, product/service quality and distribution, manpower and employee satisfaction, technical innovation, social, environmental and corporate images.

The alternative approach which regards non-financial aspirations as constraints on achievement of the over-riding financial objectives is, in the opinion of the author, gradually being regarded as being out of step with the times, with organisations wishing to develop and display their social awareness apart from establishing quasi-financial objectives such as market share or plant capacity. In addition, it is as well to note that, during the last ten years or so, public and Government pressure has tended to make organisations more aware of their wider social responsibilities and has created the growing demand that they become more accountable for their actions. Some of this pressure has produced legal constraints in the United Kingdom such as legislation concerned with race relations, equal pay, employment protection and various measures covering environmental pollution. These add to the need for the development of non-financial objectives, rather than merely regarding them as constraints working against the financial objectives, or just necessary conditions of financial achievement.

In a business corporation or other non-public organisation, the objectives will be set by the top management in line with their values which in turn would recognise the outside influences

noted earlier. In a public organisation, including the nationalised industries, there may be laid-down objectives which result from rather selective laid-down values. More likely, however, there will be a minimum financial objective coupled perhaps, but often without (as will be seen later), a minimum product/service objective. However, some discretion usually remains with the top management who can thus expand or extend the objectives, as they consider necessary but again as influenced by Government departments.

The model in Figure 3.5. describes the next stage as the determination of 'goals'. The goals of an organisation need to be absolutely specific and represent a quantified sub-division of the objectives, usually in the form of a set of targets involving numbers and dates. As such, they are 'marker points' on the road to the objectives and are needed to assess progress at every level which follows. The choice of goals needs to be undertaken with considerable care and realism, since they are often crucial to determining the suitability of the objectives and monitoring subsequent progress. Most objectives can be subdivided into goals and every effort should be made to ensure that this occurs. However, it is recognised that there might be some objectives which do not lend themselves to this sort of quantification. This might be the case, for example, in the area of social objectives. However, it is important to make such aspirations as explicit and tangible as possible.

The most difficult area of the model follows and that relates to the determination of 'strategy' which, in line with the

objectives, should also be long term. As noted in Section 3.1., the term strategy denotes the direction in which action should be taken to achieve the objectives and the intermediate goals. Thus, it represents the 'means' to achieve the objectives which become the 'ends'. Strategy sets the direction in which the organisation will grow and develop (or decline). In itself, it results in no action. That depends on the 'plans' which follow.

The development of strategy requires both an external and internal appraisal of present and future circumstances. The external appraisal amounts to a detailed examination of the organisation's environment, not just as it is but as it is expected to change and even how the organisation's strategy might change it. This would normally be translated into a series of planning assumptions. The internal appraisal consists of an examination of the organisation's strengths and weaknesses including an assessment of how they too can be changed.

The very nature of the process of strategy formulation makes it essentially a headquarter's process, capable of arriving at strategies which might not be even postulated at a lower level. It is clear from the literature search information given in Section 3.1., that the determination of strategy involves 'gap' analysis, strategy creation, strategy evaluation and strategy selection, all of which involve a large amount of forecasting. This is an extremely difficult process which, on the evidence provided, requires a considerable amount of time, thought, skill and effort.

The author considers that it is not practical for him to recommend that an organisation must follow the Argenti approach, the Ansoff approach, or any other 'comprehensive' approach since the determination of strategy is partly a political process and may only be as good as the skills of the people involved and the attitudes which they bring to bear on the problem. Thus his view on this process is, therefore, that it is only practical for top management in any organisation to proceed as their values, objectives and policies dictate and as time, skills and resources permit. However, they should attempt to be as knowledgeable as possible about the potential benefit of adopting a structured approach similar to one of those outlined in Section 3.1. and, wherever possible, make use of computer models to assist the strategy evaluation and selection process.

Additionally, the author considers it important to produce, evaluate and select contingency strategies which can be input into the strategic plan. These would be based largely on events contained within the external appraisal to which particular risks should be ascribed. Again, computer models (sensitivity and risk analysis as described in Chapter 4) might be used in this part of the process.

Having determined the sense of direction, the next stage in the model in Figure 3.5. is the preparation of a 'strategic plan' which converts the selected strategy into approximate actions and consequences with associated forecasts. This should be long term also, but be more refined in the earlier years to correspond with the later stages of the model. The forecasts

used at this stage would largely be those already available from the strategy selection stage, but in more detail. Its content would be in the shape of anticipated yearly/year-end financial and physical position statements, assuming a staged implementation of the strategy, but without the precise details of the year-to-year actions having been established - only their broad outline. Again, details of the chosen contingency strategies would be required, in the form of a contingency plan stating, broadly, the revised strategies to be followed and their expected outcomes. This should be preceded by details of the impact on the strategic plan forecasts if the contingent events occur without any of the contingency plans being brought into effect.

To make the strategic plan into a comprehensible document, it would be necessary to provide a preamble dealing with values, policies, objectives and goals. By doing this, the strategic plan becomes what many organisations (including those covered in this research) describe as 'the corporate plan'.

The strategic plan would provide the basis for a more detailed 'action' or 'operating plan' which represent relatively firm proposals, covering a shorter timescale, and not broad statements of intent. Indeed, whilst a strategic plan would contain forecasts broadly answering the question 'what should we reasonably achieve within the strategy?', the action plan would be concerned with making a series of medium term choices relating to what should be done at the tactical level and, moreover, determining appropriate courses of action through which

this may be achieved. Such action plans would need to be jointly prepared and agreed by headquarters and the local management responsible for their implementation. These courses of action would also involve forecasts for the medium term, e.g. about two to five years ahead. The information (i.e. actions) contained within an action plan should be in considerable detail to ensure that there is no doubt as to their timing or what is intended of them. They would cover areas such as:-

- Corporate development, e.g. specific and dated decisions on diversification and major investment
- Marketing (and distribution) e.g. product development, pricing and advertising
- Production (and supply) e.g. new production methods, new installations and changed levels of resources
- Manpower - e.g. requirements, supply and conditions of service
- Finance - e.g. detailed forecasts in profit and loss / cash flow, format, investment requirements and 'pay-offs' and sources of finance.

At this stage, the emphasis with respect to forecasting moves towards the area of investigating the future results of tactical decisions that may be taken within the confines of the strategy. This would be achieved by forecasting the likely outcome of a number of tactical alternative courses of action in some detail and then selecting those thought to best fit the strategy. No account would be taken of the 'strategic' contingency plans in this stage of the process, the assumption being that the chosen

strategy will be implemented.

Moving further down the model, it is necessary for the budget stage to represent a commitment to the first year of the action plan agreed at all management levels. This process requires the establishment of separate budgets for resources, profit and loss and cash flow within each functional department and below. The interface between action plans and budgets is important because it represents a change of flow within the planning process. Whereas the stages of the model prior to the action plan stage would be a headquarters activity, the budget stage intimately involves managers at all levels. Moreover the budget stage requires information being built up from the lowest levels of the organisation and 'negotiated' at each level above. This 'bottom-up' approach may be contrasted with the 'top-down' approaches of the earlier stages of the model, the two coming together at the action plan stage, that action plan having been jointly prepared. As such, the criteria for acceptance of the budget (and investment projects) becomes its compatibility with the action plan.

The model continues with 'implementation', 'feedback' and 'control'. The term implementation is self-explanatory but the others require some comment. The feedback process implies the generation of information concerning the success of the implementation measured in the light of all the previous stages, so that corrective action may be taken if necessary. Control means taking the corrective action required by receipt of this knowledge, which may require that action be taken at any one,

or a combination of, the earlier stages. Feedback and control measures would, in an ideal world, be automatically generated and based on a continuous supply of information. However, apart from continuous budget monitoring and regular monitoring of implementation of the action plan (perhaps quarterly), a regular (at the end of each planning cycle - usually annually) examination of and report on the progress towards achieving the forecasts contained within and the underlying philosophies of the earlier stages of the model is needed.

The continuous nature of planning is recognised in the model. This is achieved by using a 'rolling' system frequently updating the forecasts. The planning cycle, as this is often called, would usually be annual. Furthermore, the interactive nature of planning is explicitly recognised in the model by assuming that each stage within the model may react on one preceding it, and others, and require their revision. For example, if a strategy cannot be found to meet the objectives then some change in the objectives may be necessary. The arrows in the model identify this process. Taking the example just mentioned, the arrow leading from strategy direct to feedback would be the route taken if such a situation arose. This in turn might lead to a reassessment of the objectives, values or policies of the organisation.

From this description of the corporate planning process, it can readily be observed that it absorbs financial planning, manpower planning, marketing planning and production planning into one coordinated activity. Financial planning is, therefore, concerned with the financial elements of each stage in the

process and not merely selected items such as budgetary control. Likewise, manpower planning is concerned with the manpower elements of each stage of the process. However, corporate planning is not merely the sum of these elements of planning but is concerned with harnessing them to produce a state of compatibility and combined purpose which creates a synergy-like situation from which benefits ought be accrued in addition to the sum of the benefits derived from the individual parts. Thus, as discussed earlier, it is not just a technique but a 'way of management'.

To take this point a stage further, it is considered by the author that an organisation could, however, arrange its financial planning process with almost the same degree of comprehensiveness. This could be achieved by creating financial objectives only. In these circumstances, the other elements would become secondary and would not be subject to the objective setting process. Indeed, the author is of the opinion that it is the presence of non-financial objectives which elevates corporate planning above the level of what might otherwise be described as comprehensive financial planning. This view is not shared in the literature on this subject.

This logic could be taken even further if the only objectives were those concerning marketing, production or manpower attainment. In each of those circumstances, the remaining elements would become of secondary importance. However, this situation is unlikely to exist in any organisation since financial objectives are almost certain to be required. Thus,

in the model which has been outlined, the presence of non-financial as well as financial objectives is, in the opinion of the author, of paramount importance in the establishment of a theoretically correct corporate planning process. With financial objectives alone, organisations undertaking what they may describe as corporate planning are undertaking a form of financial planning which is more sophisticated than that term is usually meant to imply.

# CHAPTER 4

# CORPORATE PLANNING THEORY - PROCEDURES

The theoretical process of corporate planning discussed in Chapter 3 requires a considerable related body of theory in what the author has chosen to describe as procedural issues. This chapter examines some of the theoretical work which exists in this area under the following headings:-

4.1. Forecasting

4.2. Model Building

4.3. Risk and Sensitivity Analysis

4.4. Budgetary Control

In doing this, only those aspects demonstrated in the literature to be most vital to the main purposes of this thesis will be discussed. However, it has been necessary for the author to make a decision on what topics might not be covered in this chapter. This was a very difficult decision to make, in that corporate planning is such an all-embracing process that there is hardly a management process or procedure that could, theoretically, be omitted. For example, theories on marketing, pricing, decision-making, capital budgeting, costing and organisational development could perhaps have been included in this chapter or in Chapter 3. In the event, the author has again taken a lead from the literature on corporate planning which, to the extent that the writers have considered such issues at all, have tended to deal with aspects of the topics which are discussed in this chapter.

## 4.1. Forecasting

It was established in Chapter 3 that, at nearly all of the stages of the corporate planning process, it is necessary for the forecasts to be prepared to facilitate decision making. Indeed, Argenti (1974) stated that 'A very large proportion of the time devoted to corporate planning is spent on forecasting.' These forecasts might be in respect of the anticipated position before or after a planning decision or, frequently, both.

In a management science sense, however, forecasting is a process of figure prediction which, itself, encompasses a number of techniques. These techniques are useful in their own right and many will be used in corporate planning. Which techniques will be used and for what purpose will depend on the stage of the planning process and the perceived needs of the organisation. This is partly a question of time-scale where, for example, the amount of detail and accuracy required of a one-year budget would be greater than for the tenth year of a strategic plan. But, it is also a question of purpose. In an uncertain world, the purpose of forecasting is clear. It is to unravel some of the complexity that surrounds each business decision so that any general data available becomes information pertinent to the situation being studied. Wood and Fildes (1976) have described forecasting as an attempt to create a bridge that links data one currently has with data that would would like to have but cannot obtain directly. They go on to suggest that the purpose of the forecast is either to accept the forecast future and to make optimal decisions within the framework or, alternatively, to seek to influence the predicted future; that is, to change the forecast future. Thus, forecasting is not just a collection

of statistical techniques; it is a managerial activity concerned with providing information and understanding for decisions and, in so doing, influencing both the decisions and the decision-making processes.

The nature of forecasting procedures is likely to change depending on the level being considered within the corporate planning process. At the strategy evaluation level, it is likely that the forecasts will be naive (in the sense of a lack of statistical sophistication), macro (in the sense of looking at general trends), based on judgement, intuition, flair, but not on extrapolation of hard data. Furthermore, it is unlikely that the techniques used will be concerned with determining, at this stage, any causal relationships. They are more likely to be concerned with drawing broad scenarios of what may be the picture in the distant future so that planners may view the pictures.

This scenario building process enables the organisation to adopt the Wood and Fildes approach and to:-

(a) View the likely future environment and the organisation's likely place in it, given its current strategic direction (explicit or implicit),

(b) consider how to get the best out of that scenario and/or

(c) consider how it may be possible to change that scenario to the advantage of the organisation.

Moving down the levels through action plans and budgets the nature of the forecasting procedures is changed. At the action

plans level it will usually be necessary for the forecasts to become more quantitative in nature. Instead of trying to judge among alternatives, the forecasting emphasis would be more concerned with the determination of as precise an evaluation as possible of the selected alternatives. It might also be that forecasting at this stage would be concerned with investigating the relationships that determine the forecast variables. That is, the forecasting methods will be concerned with explanation as well as prediction. By the time the budgeting stage is reached the forecasts will be used in a control sense, in that they will provide the mechanism by which 'negotiated commitments' will be achieved (see section 4.4.).

In terms of techniques, there are many forecasting techniques which might be used in corporate planning. Two classifications seem to cover the ground adequately. The first is that produced by Chambers, Mullick and Smith (1971). They placed forecasting techniques under three headings - qualitative methods, time series analysis and projection methods, and causal methods. A summary of their approach is given in Fig. 4.1.

| Qualitative | Time-series analysis and projection | Causal |
|---|---|---|
| Delphi | Moving average | Regression model |
| Market research | Exponential smoothing | Econometric models |
| Panel consensus | Box-Jenkins | Intention to buy and anticipation surveys |
| Visionary forecast | X-11 | Input-output model |
| Historical analogy | Trend projections | Economic input-output model |
| | | Diffusion index |
| | | Leading indicator |
| | | Life-cycle analysis |

Fig. 4.1. Summary of Forecasting Techniques (Chambers, Mullick and Smith, 1971)

The first category might be regarded as the 'naive' type which would be concerned heavily with the scenario building part of the planning process i.e. generally in the strategy and strategic plan stages. Under the Delphi technique the forecaster can seek the advice of a panel of experts with respect to likely future scenarios. Unlike a 'brainstorming' exercise the panel makes its predictions dispassionately in the sense that the panelists do not meet. Instead, a questionnaire is usually sent to each of them to be returned to the investigator at the centre, who then combines the information and sends it back out to the panelists to see if they wish to change their views in the light of other experts considered opinions. This 'to-ing and fro-ing' might go on for a number of rounds.

The important characteristic of this type of forecast is that it does not rely on hard data or extrapolations from the past. Thus, it is able to predict 'turning' points more quickly than statistical techniques because it does not assume that what has happened in the past is likely to happen again; that is, the panelists do not necessarily extrapolate past trends. Argenti (1974) argued that 'he has the impression that this technique is emerging as the most popular of all the newer long range forecasting methods, partly perhaps because it is basically simple and partly because it is not essentially mathematical.'

Market research is described by Chambers et al as a 'systematic, formal and conscious procedure for evolving and testing hypotheses about real markets.' The panel consensus technique is based upon the assumption that several experts can create

a better forecast than one. Under this technique communication is encouraged unlike the Delphi technique. The visionary forecast technique is described (by Chambers et al) as 'A prophecy that uses personal insights, judgement, and, when possible, facts about different scenarios of the future. It is characterised by subjective guesswork and imagination; in general, the methods used are non-scientific.' Finally, the historical analogy technique is based on the assumption that there will be a similarity pattern relating to, for example, the introduction and growth of an earlier new product.

The second category of techniques rely heavily on extrapolation. They are usually grouped under the general heading of time-series analysis although, as with the naive methods, there are many individual techniques hidden beneath this umbrella title. The important characteristic of these techniques is that they are not so much interested in explanation as in prediction. These types of forecasts are concerned with what the future is likely to be without attempting to explain what management action may be needed to ensure that future. Moreover, the techniques are generally univariate, i.e. only one variable is used in the prediction process and this tends to be time. Thus, these techniques rely heavily on the assumption that what has happened before is likely to happen again, in almost precisely the same form, in the future. Time-series analysis techniques might be used in the strategy or strategic plan stages of the model in Figure 3.5., but are more likely to be used in later stages of the corporate planning process, particularly the action plan stage.

The moving average technique, is described by Chambers et al as 'Each point of a moving average of a time series is the arithmetic or weighted average of a number of consecutive points of the series, where the number of data points is chosen so that the effects of seasonals or irregularities or both are eliminated.' Exponential smoothing is similar to the moving average technique, except that more recent data points are given more weight. Under the Box-Jenkins tecknique, the time series that would be used in exponential smoothing is 'fitted with a mathematical model that is optimal in the sense that it assigns smaller errors to history than any other model. The type of model must be identified and the parameters then estimated.'

Chambers et al describe the X-11 technique as one which 'decomposes a time series into seasonals, trend cycles and irregular elements.' Finally, the trend projection technique is one which fits a trend line into a mathematical equation and then projects it into the future.

The third class of forecasts, the causal types, usually involve the use of quite sophisticated statistical procedures. The first two and most common of these are those involved with multiple regression, involving analysis on a multivariate basis and where hard data is available. They are involved primarily with establishing the relationships between variables so that management action may be taken in the light of these relationships. Thus, they are concerned with explanation, although, of course, every explanatory model is also a

predictive model. Causal techniques would normally be used in the action plan and budget stages of the corporate planning process.

The regression model relates a variable to other external or internal variables and estimates an equation using the 'least-squares' technique. The econometric model takes this procedure further using a system of interdependent regression equations that describe an activity, producing a more comprehensive analysis and forecast.

Intention to buy and anticipation surveys are surveys of the general public designed to determine their intentions to buy a product or derive an index that indicates the present 'feelings about the present and future and estimates how this feeling will affect buying habits.' The input-output model is a 'method of analysis concerned with the inter-industry or inter-departmental flow of goods or services in the economy or a company and its markets. It shows what flow of inputs must occur to obtain certain outputs.'

The economic input-output model represents the combination of the input-output model and an econometric model. The diffusion index is an index obtained by establishing the percentage of a group of economic indicators that are going up or down. The leading indicator technique relies on a time series of an economic activity whose movement precedes a movement of another time series in the same direction. Finally, the life-cycle analysis attempts to identify phases of product acceptance by 'the

various groups such as innovators, early adaptors, early majority, late majority and laggards.'

A second classification produced by Hussey (1974) had a large number of similarities in its detail, although six main categories were identified. His classification is summarised in Figure 4.2. with brief explanations in brackets where the Chambers et al descriptions do not match sufficiently well to make further description unnecessary.

1. Product Life Cycle

2. Statistical Growth Pattern
   - 2.1. Simple Growth Pattern
   - 2.2. Moving Averages
   - 2.3. Exponential Smoothing
   - 2.4. Mathematical Trends

3. Marketing and Market Research Methods
   - 3.1. Comparative Studies (analogous circumstances)
   - 3.2. Leading Indicators (frequently economic indicators)
   - 3.3. Experimental Market Research
   - 3.4. Intention to Buy Surveys
   - 3.5. Marketing judgement (experience and common sense)
   - 3.6. Other Surveys, including consumer usage and attitude surveys

4. Analytical Forecasts and Models
   - 4.1. Regression Analysis
   - 4.2. Econometric Models
   - 4.3. Input-Output Analysis

5. Combination Forecasts
   Combining a group of other forecasts

6. Technological Forecasting
   - 6.1. Delphi Technique
   - 6.2. Scenarios (a sequence of possible events)
   - 6.3. Impact Analysis
   - 6.4. Extrapolative Techniques (based on technological trends)
   - 6.5. Morphological Analysis (analysis of all the technological requirements of a product and the relationships between them)

Fig. 4.2. Summary of Forecasting Techniques

(Source : Hussey, 1974)

Hussey matched this classification with a series of principles which can 'assist' the choice of the 'best method.' In brief, he considered that the company should recognise:-

a) The purpose of forecast and the degree of accuracy required.
b) The ability of the company to use the forecast.
c) Its cost-effectiveness.
d) Whether the technique is understandable to the management of the company.
e) The speed at which the forecast is needed matches the choice made on technical grounds.
f) The frequency with which a forecast will be made.

In a survey of 67 managers on the use of forecasting techniques, Fildes, Jalland and Wood (1978) found that the subjective estimate method was by far the most used and was rated as the most useful. A summary of their survey findings is given in Table 4.1.

It is interesting to note that the 'subjective estimate' technique was described by Chambers et al as the 'visionary forecast' technique but in Hussey's list the closest comparison is the 'Marketing Judgement' technique. It will be seen in Part 3 that, no matter the words used to label the 'subjective estimate' technique, it has had extensive use in the corporate planning activities of the four organisations covered in this research.

| | % Managers Used Personally | % Managers Rated as Useful |
|---|---|---|
| Subjective estimate | 66 | 67 |
| Trend projection | 54 | 64 |
| Moving average | 45 | 57 |
| Graphical methods | 31 | 63 |
| Panel opinion / delphi | 30 | 42 |
| Customer / supplier surveys | 16 | N/A |
| Exponential smoothing | 16 | 31 |
| Econometric models | 13 | 28 |
| Box-Jenkins | 0 | 3 |

Table 4.1. Summary of Survey on Forecasting Methods Used by Managers

(Source : Long Range Planning, August 1978)

It is evident from the literature, that some of the forecasts used in the strategic and tactical planning stages of corporate planning might be in the form of, or be supported by, investment project appraisals. At the strategy stage of the corporate planning process, it is necessary to evaluate a number of strategic alternatives to facilitate strategy selection. Similarly, at the action plan stage, it is necessary to evaluate tactical alternatives and again make choices on how best to proceed. At the strategy stage, it is quite likely that capital investment will be a significant feature of each alternative. Even at the tactical level, this might well be of some significance.

At the policies stage of the process, it may well also be that a 'ceiling' level of total capital investment is fixed by the organisation for each year which will have a bearing on the project choices that are capable of being made. That situation is known as one of the forms of capital rationing, (Bierman and Smidt, 1971) and is quite prevalent. Indeed, it applies to all

nationalised industries with the Government setting annual 'Investment Ceilings' for up to four years ahead, subject to annual (at least) review.

In dealing with the appraisal of such capital expenditure, be it at the strategic/action plan stages, or separately as part of a project authorisation procedure, it is now 'almost universally accepted' that ' discounted cash flow' is the 'most appropriate technique for appraisal' (Hussey, 1974). However, mention of the term discounted cash flow takes one into the area of considering the much wider topic of capital budgeting, the theory of which has been described by Bromwich (1976) as being concerned with:-

'What specific investment projects should the firm accept?
What total amount of capital expenditure should the firm undertake?
How should this portfolio of projects be financed?'

This has presented the author with a dilemma of considering whether to:-

a) provide an exhaustive analysis of the theories connected with capital budgeting and related matters, based on a literature search, or
b) just make a very brief reference to discounted cash flow as is done in most of the literature on corporate planning.

In the event, and as stated on page 1 of this chapter, it has been decided not to deal with the immense topic of capital budgeting (that would take a further thesis). Instead, it is

intended to note just a few basic points on the use of discounted cash flow.

Very simply and again to quote Hussey (1974) 'DCF may be described as an attempt to take into account the time value of money on the basis that £1 received this year is worth more that £1 next year (because of the interest that can be earned with it.' He went on to explain that there are three main measures of performance:-

a) 'Net present value at the end of the project.....it cumulates the cash flows of each year of the project (discounted at the chosen rate), providing a simple one-figure measure of the results for comparison between projects.'

b) 'Number of years before payback.' He acknowledged that this technique might also be taken at 'undiscounted figures' and other literature, e.g. Bierman and Smidt (1971), dealt with the 'payback period' method as one of the methods which did not take account of the time value of money.

c) 'Internal rate of return (sometimes known as DCF yield). This calculates the theoretical interest rate which, if used, would produce a net present value of NIL.'

That somewhat simplistic exposition did not deal with the many complications associated with determining the discount rate by reference to cost of capital i.e. 'the opportunity cost of funds used to finance a project.' This would be related to the many sources of capital and the risks involved, creating a situation where it would be 'more apt to describe the cost of

capital as the required rate of return on projects.' (Bromwich, 1976).

Nevertheless, it is considered by the author that, in noting Hussey's remarks and related comments, sufficient has been said in this section to relate investment appraisal techniques to the process of corporate planning to enable some consideration to be given to this relationship in Part 3.

To conclude this discussion on forecasting, it is necessary to consider how to deal with inflation in the context of forecasts used in the various stages of the corporate planning process. Argenti (1980) has stated that 'Planners have to make their minds up very clearly indeed as to how they intend to deal with inflation. He postulated two options, the first being the use of 'constant value' (or 'real terms') figures, which would include expected real price changes, and the second being to make the forecast 'with inflation built into the figures' sometimes described as 'current-value' forecasts. This problem had been highlighted by a number of writers, including Hussey (1974) and Carsberg (1974), the latter in the context of forecasts used in investment appraisal.

The Argenti view was that the constant value forecasts were more meaningful and much more useful in discussions with executives, particularly when dealing with forecasts in terms of periods of time exceeding one or two years. However, recognising that a forecast which excludes inflation 'will not truly reflect a company's cash-flow position', he concluded that 'all

forecasts have to be made twice: once in constant money and again in inflated money.'

Hussey, on the other hand, argued that forecasts should 'try to be as close to reality as possible' and recommended that they should 'allow for the effect on costs and income of expected price changes.' A secondary reason which he offered was that 'monitoring and control, already difficult, becomes almost impossible if the figures are not at current prices.' The Argenti view on this latter point was that, in order to evaluate a company's past performance, 'all the figures have to be converted to constant values in order to make the real trends or movements of turnover, profits, material prices, and so on intelligible.'

Carsberg (in the context of investment appraisal and monitoring) shared the Hussey view. He made the point that, in order to calculate the real price changes for inclusion in the constant price forecasts it was necessary to firstly estimate the 'money' (i.e. including inflation) cash flows and then strip out the forecast inflation to leave the 'real' (i.e. constant price) cash flows. He described both forecasting procedures as being arithmetically equivalent (in DCF calculations, one would use a money rate of return in respect of cash flows including inflation and a real rate of return in respect of constant value cash flows) but added that the two stage procedure is 'pointless' and leaves him with the 'impression that the best method of appraisal is to estimate money cash flows and discount at a money rate of return.'

The author's view is that strategic plan forecasts for more than one year ahead are meaningless to managers if they are not expressed in constant values, i.e. allowing only for real price changes. However, in order to be able to monitor results, it is useful to have forecasts which include inflation, rather than have to reduce actual results to an earlier price level (per Argenti) for comparison purposes. Consequently, the author would contend that both sets of figures should be produced and that, in monitoring differences between the forecast (including inflation) and the emerging result, a distinction should be drawn between differences caused by non-achievement of real price changes and non-experience of anticipated inflation levels.

## 4.2. Model Building

Perhaps the most exciting and potentially far-reaching development in corporate planning in recent years has been the development of corporate models, normally using a computer, designed to deal with major elements of the corporate planning process. This development was explained in considerable detail, with related research material, in a book written by Grinyer and Wooller, first published in 1975 and partly revised in a second edition published in 1978.

Grinyer and Wooller explained that all models are 'representations of reality' and that 'corporate models are sets of related expressions that represent the key operations of the company.' They added further that 'all corporate models are used for some aspects of financial planning' but that 'they

are also used to aid marketing, distribution, production and other major decisions of a primarily non-financial nature.' In essence, therefore, they are used for major elements of the corporate planning process outlined in Chapter 3, where they can reduce the amount of time spent on dealing with the various stages and their forecasts.

However, it has been found by Naylor (1979) that 'Despite dramatic increases in the usage of computer-based planning models since 1970, relatively few corporations have successfully integrated their planning models into their planning process. In many cases, planning models are treated as if they were merely mathematical appendages to the planning process rather than tools to be integrated into the planning process.' Naylor made a strong point of the need for such integration to get the best out of the use of corporate models and outlined a six step approach for doing so. In summary form, these six steps were:-

1) Review of the planning environment

A 'planning audit' of the organisation's

- organisational structure
- management philosophy and style
- business environment
- planning process

2) Specification of the Planning Requirement

A statement of the planning requirements of corporate officers at all levels detailing

- data required for planning and forecasting
- types of external events which may affect the company
- major business strategies to be considered

- types of 'what if' questions which should be considered
- reporting arrangements

3) Definition of the Goals and Objectives for Planning

A summary statement of goals and objectives at the various organisational levels.

4) Evaluation of Existing Planning Resources

An evaluation of the existing resources available in the light of the given planning requirement. This should cover -

- Databases
- Forecasts/forecasting techniques
- Models (including degree of integration in the planning process)
- Reports
- Software
- Human resources

5) Design of an Integrated Planning and Modelling System

Specification for an integrated system taking into account eight basic elements -

- Planning system including
  - Financial planning models
  - Marketing planning models
  - Production planning models
  - Integrated planning models
  - Consolidated planning models
- Management information system
- Modelling system
- Forecasting system
- Econometric modelling

- User orientation of the system
- System availability
- Software system

6) Formulation of a Strategy for Integrating the Planning Model into the Planning Process

This involves seven major elements

- Create an organisational framework for developing, implementing and maintaining the model, and for integrating it into the planning process.
- Change planning process as necessary to match steps 2 and 3 mentioned earlier.
- Modify databases, forecasts, models, reports and computer software to make these planning tools more compatible with the planning needs.
- Specify the human and technical resource requirements and obtain as necessary.
- Conduct an educational programme to familiarise management with the use of the planning and modelling system.
- Prepare an implementation schedule.
- Prepare a 'budget' for the project, assessing its benefits.

Grinyer and Wooller identified corporate modelling as producing a number of significant benefits. These are summarised below:-

They can provide -

a) Greater accuracy and speed of forecasting company performance.

b) A means of quickly checking on the internal consistency of planning assumptions.

c) Freedom to explore a wide range of alternatives, as opposed to the few possible with manual calculations.

d) A release of management time, by reduction of routine calculations, for thinking about strategic problems and their solution.

e) Fuller allowance for links with other aspects of the business, when evaluating a proposal.

f) Fuller understanding of the internal complexities of the company by decision takers.

g) Deeper insight into the risks inherent in proposed projects.

h) A means of highlighting the key aspects of both existing business and new projects.

i) A tool for showing managers the extent to which reported performances will be affected by errors in estimates.

Clearly, these benefits would have a significant impact in an associated corporate planning context. However, five potential 'limitations' were also noted by Grinyer and Wodler, viz:-

a) They deal only with quantitative (measurable) aspects whereas, in strategic problems, qualitative (immeasurable) factors are important and sometimes dominate decisions.

b) They will only do what they have been designed to do.

c) The output of most models is dependent on the ability of the company to provide good estimates for at least the critical factors.

d) They cannot create the alternatives, only help managers to choose the best of those tested.

e) Because the process by which strategic decisions are reached within companies is political, participants in this process may sometimes use their corporate model to justify a position already taken, rather than rigorously evaluate alternatives.

It is clear that the potential benefits considerably outweigh the potential limitations and the growth of corporate modelling has given further evidence of this. As early as 1973, a random survey conducted by Grinyer and Wooller showed that 9% of the largest U.K. companies ('The Times 1000') had or were developing corporate models. Since then Naylor (1979) has stated that 'Nearly 2000 firms in the United States, Canada and Mexico are either using, developing or experimenting with some form of corporate planning model.'

Recognising that organisations deciding on the use of corporate models have to make an initial 'make or buy' decision, Grinyer and Wooller (1978) described the broad alternative decisions as

' * Buy a model ready made from a (computer) bureau.
  * Develop a tailor made model specifically for the company by use of:
    * A general purpose programming language or a modelling system (special language for corporate modelling available from a bureau).
    * Consultants and/or own staff.
    * Specialist modellers and/or accountants, managers and other ultimate users, among own staff.'

They went on to explain that the 'evidence available suggests that, rather than use such off the shelf types, companies construct models which represent their own operations and accounting logic more faithfully.'

There are a number of different types of models and the Grinyer

and Woolley classification is summarised below:-

a) Simulation

Here the model would be used to explore possible alternative actions by imitating the operations of the company. This involves representing the key operations of the company in the model and expressing their relationships together with a set of basic assumptions. Alternatives are generated by changing either the input or where necessary their relationships. They can also be generated by changing the basic assumptions, (see sensitivity analysis in Section 4.3.). Most corporate models are of this type and it will be recalled that the use of simulation models was described in Chapter 3 as being particularly relevant to strategy evaluation and selection.

b) Optimisation

A variation on this approach is the optimisation model which seeks the best solution, given any set of assumptions. In this case, the definition of best must be specified e.g. largest return on capital employed and a mathematical routine such as linear programming incorporated to establish the 'best' solution.

c) Deterministic

Here certainty is usually assumed and a single factor is used to vary a forecast already prepared by a set amount. This enables the model to produce a 'what if' response, e.g. 'what if wages increase by 5%?' This model could deal with two or more factors provided that the assumption is made that one, both, etc. are certain to occur. This type of approach is most suitable for use in conjunction with sensitivity

analysis (see Section 4.3.) which, in turn, can greatly assist the production of contingency plans.

d) Probabalistic

The same principles apply here except for the substitution of measures of risk instead of certainty and the related ability to cope with more than one factor to a different extent. This requires the use of probability distributions, which are explained further in Section 4.3., in a 'risk analysis' context. Again, the interface with the production of contingency plans is important.

e) Representation of Financial and Physical Flows

Here the operations of the company are represented by a series of inter-related physical flows, relating to materials and services. They can help deal with problems of product mix and machine capacity. They can also be converted into financial values, and would frequently be consolidated into another part of the corporate model (e.g. simulation). This form of model might have inbuilt rules prepared on a heuristic basis (i.e. in the way human decision takers would proceed) to deal with certain occurrences. Many of the causal relationships would be based on statistical analysis or on direct observation of the operations of the company.

f) Organisational Levels Included

This rather ungainly title refers to the need to have a model at corporate headquarters level which summarises the forecasts of the usually more detailed models at the subsidiary, divisional and operating unit levels.

Models within types b) to e) above were summarised under the

single title of 'Analytical Models' by Flower (1973).

With each of these types of models in mind, Grinyer and Wooller made the case for a suite of models, each dealing with different aspects of the planning process rather than a single 'monolithic' corporate model. They described this as a 'modular approach' which had several advantages, viz:-

a) The all-embracing model can be too large and expensive to produce.
b) They take a long time to develop and can be out-of-date by the time they are completed. This tends to 'erode enthusiasm.'
c) Their complexity can make it difficult to incorporate amendments.
d) The smaller models do not have these disadvantages and can be built more quickly and cheaply.
e) They are easier to understand by the users.
f) They can be added to more easily.
g) They allow closer identification with management with more direct value to them in their separate capacities.
h) They permit construction by different people as long as each is properly documented.
i) They can be more easily updated and usually cost less to produce.

This approach was supported by Naylor in 'Step 5' of his approach to integrating a corporate planning model, noted earlier. He emphasised this point when considering the responsibility, development and use of the model by stressing the need for the involvement of all users of the output.

In summary, it is clear that the development of computer-based modelling systems has begun to have and will almost certainly continue to have an expanding role in the application of the process of corporate planning. This will apply in respect of most of the stages of the corporate planning process described in the model given in Fig. 3.5., but particularly the stages from 'strategy' down to 'budgets' where the speed of evaluation of alternatives and risks can be an important feature. The extent to which the four organisations covered in this research have used, or are intending to use, such computer models will be established in Part 3.

## 4.3. Risk and Sensitivity Analysis

It has been made clear in the foregoing that the process of corporate planning involves extensive use of forecasting at most of the stages of the model in Fig. 3.5. However, it has also be stated (but was probably already self-evident) that there is no way of producing wholly accurate forecasts because of the risks and uncertainty that surround future events. This problem has been evident for a very long time but some (e.g. Drucker, 1980) would argue that a new state of 'turbulence' emerged 'sometime during the 1970's' making planning the course of future events much more challenging than it used to be.

Techniques for dealing with risk (where probabilities can be assigned or as Merrett and Sykes (1973) have put it 'situations of a type which people or businesses can insure themselves against') and uncertainty ('where there is very little certain knowledge') have been developed over the years mainly in

connection with investment project appraisal. These have included sensitivity analysis (or sensitivity tests), risk analysis and various methods of dealing with total uncertainty. Some of these have been incorporated into the more general forecasting requirements of the corporate planning process.

It is not proposed to discuss here the methods of dealing with total uncertainty which relate, fundamentally, to investment project appraisal but, instead, to consider sensitivity and risk analysis.

Sensitivity analysis is merely an assessment of how much a forecast would change if a single variable, contained within that forecast, were to change by a set degree. For example, if in respect of a strategic plan, the managers responsible for the forecast were wishing to test the risks associated with that forecast, they could indicate the main areas and likely extent of risk and evaluate each in turn. They might, for instance, consider that there is a possibility that the predicted market share is overstated by 10%. The sensitivity analysis would be designed to indicate the revised forecast reflecting the reduced sales figures and the associated effect on costs and resources.

In the context of investment appraisal, Merrett and Sykes (1973) regarded sensitivity analysis as 'the first stage in the evaluation of risk' wherein 'it is necessary to determine the critical variables, the sales realisations, costs, lives, etc., which are critical to the acceptability of the project.'

They went on to state that the 'first use of sensitivity analysis is to ascertain whether or not a project falls into the fail-safe catetory.'

Again, in the context of investment project appraisal its main advantages were stated by Argenti (1974) to be as follows:-

'1. It shows which are the most important assumptions underlying any proposed project.

2. It indicates just how bad (or good) the project could be if the worst (or best) happens.

3. It does not rely for its efficacy on any estimates of probability.'

One of the prime potential benefits of sensitivity analysis is that it can provide a basis from which to begin constructing a strategic contingency plan. This is because it should demonstrate the impact on the forecasts relating to the strategies being evaluated of the possible critical risks if they occur. The computer models discussed in Section 4.2. are eminently suitable for this purpose.

However, sensitivity analysis suffers from one disadvantage, noted by Argenti (1974) that 'one may only test the effect of one parameter at a time.' There can be very few forecasts which are only at risk in regard to a single variable. Nevertheless, many forecasts will rely mainly upon the integrity of one or two key variables and in measuring the possible effect of these, sensitivity analysis is generally acknowledged as a very useful procedure.

In some ways a more powerful procedure is, however, risk analysis,

which depends upon the ability of forecasters to assess the riskiness of the constituent elements of a forecast in probabablistic terms. Under this method, probabilities are assigned to the constituent items of receipts, expenditure or resources (or groups of items), giving the distribution of each. Summation of these differing distributions could be achieved through the use of 'Monte-Carlo' simulation or a stastical method. Under Monte-Carlo simulation, recommended by Hertz (1964), an attempt is made at imitating the main characteristics of the forecast. This involves creating probability distributions which relate to these characteristics and assigning, proportionately, a series of numbers within a set range at selected intervals. These distributions are combined through the use of random numbers, using random number tables or computer generation. The net result is a forecast of the most likely financial outcome with best and worst parameters expressed in financial and probability terms within a normal distribution. The most likely outcome would usually differ from the original forecast.

The most significant difficulty associated with the use of Monte-Carlo simulation is not the processing of the data. This can be handled quite quickly and cheaply by use of a computer model. Instead, it is the problem of forecasting the shape of the probability distributions applying to each element of the forecast. This requires a good deal of thought, effort and discussion. Many managers who provide forecasts find it very difficult to think in these terms.

A statistical method generally regarded as being useful in this area relates to an analytical method suggested by Hillier (1963) and developed by Wagle (1967). The procedure was summarised in an article by Harris (1979) and described by him as one which 'is easy to comprehend', can be undertaken 'by hand' rather than by computer and which 'produces a quick and dirty' assessment of whether a plan (forecast) is 'in the right ball park' rather than a more precise evaluation which, theoretically should result from the use of Monte-Carlo simulation. The procedure described by Harris required that the plan or project forecast for each year of that forecast be broken down into a small number of key elements. In the example provided by Harris six elements (making up the profit) within a five year constant value forecast were used; with receipts being divided between volume and real price increases and costs being similarly divided but also between staff costs and other costs.

The next stage was to assign to each of these allegedly 'most likely' forecasts, best and worst ranges to three standard deviations (i.e. 99.7% probability). Again this was described as being a difficult operation requiring considerable thought and discussion but not as difficult as creating a distribution curve as required under Monte-Carlo simulation. The net result would be a series of estimates which would generally indicate a skewed distribution for each element in each year. In the hypothetical example provided by Harris, the overall difference between the worst and the most likely figures was greater than the difference between the best and the most likely. This was described as 'not an unusual situation, reflecting the fact that

many forecasts are inclined to be optimistic.'

The next stage in the procedure was described as a 'process of aggregation to provide probability assessments for use in risk analysis.' This involved the use of 'Beta distributions which place a heavy emphasis on the general reliability of the most likely figures.' This involved the use of the formula:-

$$\text{mean} = \frac{\text{worst} + \text{best} + (4 \times \text{most likely})}{6}$$

and then the variance by the formula:-

$$\text{variance} = \frac{(\text{best} - \text{worst})^2}{36}$$

On the assumption that the attributes of each element of the forecast were mutually independent, Harris explained that an aggregate variance could then be produced, the square root of which would be the standard deviation of the profit figure. When multiplied by 3, this gave the ranges round the mean at three standard deviations. Because the central limit theorem would apply, the overall probability distribution would be a normal distribution curve. Statistical tables relating to a normal distribution curve could then be used to assess the probability of any profit level between the new best and worst figures being achieved, including the 'revised most likely' result.

The difficulties with using this method, accepted by Harris, were that independence of variables was assumed and the use of the central limit theorem demanded that variables must not be highly skewed, must be large in number and skewed in both

directions. None of these restrictions applies to the use of Monte-Carlo simulation. However, the summation of beta distributions was described as a simple method which might be used by organisations on a 'walk before you run' basis.

## 4.4. Budgetary Control

To conclude this chapter, a few brief comments on budgetary control are needed in a corporate planning context. Budgetary control is probably one of the most widely practiced systems of management control. It is used in most corporate organisations, in both the private and public sectors, whether or not they are involved in corporate planning. Budgets represent an important interface between planning and action. This interface has been described by Hopwood (1980) as follows:-

> 'by facilitating the separation of planning and control from action, budgets and other mechanisms for financial control have played a key role in enabling the centralised control of ever larger groupings of activities.'

It is generally recognised (e.g. Anthony and Herslinger 1975 and Welsch 1971) that the essence of budgetary control is to identify personal responsibility, which means ensuring that budgets are prepared and monitored in respect of the responsibilities attaching to all 'managers' within the structure of the organisation. To ensure commitment, it is necessary for these budgets to be prepared on a 'bottom-up' basis, following the structure of the organisation. From the bottom level (e.g. cost centre) upwards, it is necessary for the

(annual) budgets to be reviewed and agreed producing personal commitment to their achievement. Normally, budgets would be prepared on a physical basis (e.g. resources) first and then converted into monitory units. They would also be analysed over time periods e.g. months within the accounting year.

Given the operation of a corporate planning process, the criterion of acceptability of budgets would be compatibility with the action plan which should have been prepared jointly with the managers concerned with its implementation, as far down the organisation structure as possible. But, because the budget is likely to contain the greatest amount of pertinent and accurate data, the action plan might need to be modified to accommodate the knowledge obtained through the budget preparation. This, in turn, might require revision of the strategic plan. The vital issue is to reconcile the budget and the action plan as a solid foundation of control.

An annual budget would normally be prepared in considerable physical and financial detail, the level of detail being greater, the lower down the organisation structure. This has to be the case because the budget is a control document which, through its regular monitoring procedures (perhaps monthly), provides an early warning of tactical and even strategic issues that are not proceeding as planned, facilitating control action.

The motivational aspects of budgetary control are stressed in much of the literature (e.g. Otley, 1977), the issues involved being related primarily to:-

(a) The need to identify personal management commitment through 'agreed' budgets.

(b) Ensuring an understanding among non-accounting managers of the financial situation of the organisation.

(c) Establishing clear identification of external factors (over which the manager has little influence) and internal factors (over which he has substantial influence).

(d) Maintaining an efficient, regular reporting and monitoring system which not only identifies the variances from budget but permits discussion (at all levels down the organisation structure) on what corrective action should be taken.

(e) Taking such action and thus promoting the view that the information is useful.

(f) Ensuring that, in the frequency of reporting, a balance is maintained between administration costs and the need for regular information speedily produced.

PART 2

# CHAPTER 5

## THE NATIONALISED TRANSPORT SECTOR

In this chapter, it is intended to consider the nature and size of the nationalised transport sector in the United Kingdom and how it fits into the United Kingdom economy and overall transport sector. It will also place the four organisations covered in this research into the context of the nationalised transport sector and compare the organisations in terms of markets, culture, patterns of growth/contraction, organisation structures and financial situations. This is meant to provide backcloth information in respect of matters which affect the corporate planning activities of the four organisations. It will be supplemented by further backcloth information, specific to each organisation, in chapters 6 to 9.

The nationalised transport sector consists, in the main, of five of the United Kingdom nationalised industries. The five organisations are:-

British Railways Board (BRB)

National Freight Company Ltd. (NFC)

National Bus Company (NBC)

British Airways (BA)

Scottish Bus Group (SBG)

It also contains the British Transport Docks Board and the British Waterways Board but these are excluded from the analysis contained in this chapter since they are not primarily providers of transport. Together, the expenditure of the five organisations listed above amounted, in 1980, to the equivalent

of 2.8% of the expenditure on goods and services within the Government's calculation of the gross domestic product of the United Kingdom. Additionally, they employed 1.6% of the United Kingdom working population, with the British Railways Board alone employing 0.9%.

The Scottish Bus Group is by far the smallest of these organisations, performing, in Scotland, a function similar to that conducted by the National Bus Company in England and Wales. It was made clear in the introduction to this thesis that the SBG would not be covered in this thesis but this omission is not considered by the author to be significant in the context of this research.

It should not be thought, of course, that the nationalised transport sector represents anything like the entirety of the overall transport sector in the United Kingdom or even in Great Britain. This much is clear from an examination of Government statistics on transport and, in particular, 'Transport Statistics Great Britain 1969 - 1979.'

In respect of the quantity of passenger transport, for example, the total (Great Britain) passenger miles in the years 1969 and 1979 were as depicted in Table 5.1. It can be seen that by far the biggest mode of transport has been private vehicles which accounted for 80% of passenger miles in 1979. The rail share was only 7.4% of which the bulk (6.6% of total passenger miles) was related to British Railways, most of the balance being in respect of the London Transport Executive.

Thousand Million Passenger Miles/Percentage

| | 1969 | | 1979 | |
|---|---|---|---|---|
| | Nos | % | Nos | % |
| Road | | | | |
| Buses and Coaches | 36 | 15 | 32 | 11 |
| Private Vehicles | 181 | 75 | 244 | 80 |
| Pedal Cycles | 3 | 1 | 2 | 1 |
| Total | 220 | 91 | 278 | 92 |
| Rail | 22 | 9 | 22 | 7 |
| Air (incl. N.Ireland and Channel Islands | 1.2 | 0.5 | 1.7 | 0.6 |
| All Modes | 243 | 100 | 302 | 100 |

Table 5.1. Passenger Transport in Great Britain 1969 and 1979

(Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980)

Within the buses and coaches mode, which accounted for 10.6% of the 1979 passenger miles in Great Britain, it is not possible to obtain accurately the National Bus Company proportion, since NBC do not publish (or produce) its passenger miles. However, a measure of the NBC proportion can be obtained by examining the analysis of passenger journeys in Great Britain in 1979, given in Table 5.2. Apart from analysing journeys by type of operator, this Table also contains details of the journeys by type of service.

From this Table, it can be assessed that NBC have provided a significant percentage of passenger journeys under most of the

Passenger Journeys by Type of Service (Millions)

| | Stage ø | Express | Excursions and Tours | Contract | Private Hire | Total |
|---|---|---|---|---|---|---|
| Public Operators | | | | | | |
| NBC | 1727 | 9 | 5 | 41 | 13 | 1795 |
| LTE | 1233 | | | | 1 | 1234 |
| PTE's | 1971 | | | 12 | 10 | 1993 |
| Municipal | 997 | 1 | | 10 | 11 | 1019 |
| SBG | 329 | 1 | 1 | 16 | 3 | 350 |
| Total | 6257 | 11 | 7 | 79 | 36 | 6391 |
| Private Operators | 186 | 33 | 26 | 276 | 188 | 709 |
| Total | 6443 | 44 | 32 | 355 | 226 | 7100 * |

ø bus stop services, sometimes described as stage-carriage

* includes 9m tram journeys

N.B. Arithmetical differences are caused by independent roundings

Table 5.2. Passenger Journeys by Buses and Coaches in Great Britain in 1979 Analysed by Type of Operator and Service

(Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980)

types of service. The percentages in 1979 were:-

| Type of Service | % |
|---|---|
| Stage carriage | 27 |
| Express | 20 |
| Excursions and Tours | 16 |
| Contract | 12 |
| Private Hire | 6 |
| All Types | 25 |

However, it is clear from examining published data in respect of receipts per passenger journey, that the NBC proportion of bus and coach passenger miles must be much higher than suggested by the distribution of passenger journeys. Of course, pricing

policy is a material factor in respect of receipts per journey as well as distance, but the very nature of NBC operations (discussed later in this chapter and in Chapter 8) suggests that the average distance travelled by each passenger by NBC will be higher than other public operators with the possible exception of SBG. Details of the average receipts per passenger journey, again in 1979, are given in Table 5.3.

Average Receipts per Passenger Journey by Type of Service (Pence)

| | Stage | Express | Excursions and Tours | Contract | Private Hire | Total |
|---|---|---|---|---|---|---|
| Public Operators | | | | | | |
| NBC | 21.7 | 264.0 | 152.2 | 28.1 | 80.2 | 23.9 |
| LTE | 13.1 | | | | 19.0 | 13.2 |
| PTE's | 14.4 | 35.8 | | 18.5 | 20.4 | 14.4 |
| Municipal | 13.3 | 20.9 | | 18.1 | 17.3 | 13.4 |
| SBG | 24.3 | 739.4 | 208.7 | 31.4 | 59.2 | 26.4 |
| Total | 16.5 | 266.1 | 155.6 | 26.0 | 45.8 | 17.4 |
| Private Operators | 19.5 | 52.7 | 126.2 | 37.0 | 59.4 | 42.4 |
| Total | 16.6 | 105.7 | 132.2 | 34.6 | 56.7 | 19.9 |

Table 5.3. Average Receipts per Passenger Journey by Buses and Coaches in Great Britain in 1979 Analysed by Type of Operator and Service

(Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980)

Using this additional evidence, it is assessed by the author that the proportion of buses and coaches passenger miles in Great Britain, in 1979, provided by NBC was approximately as follows:-

| Type of Service | % |
|---|---|
| Stage | 35 |
| Express | 50 |
| Excursions and Tours | 18 |
| Contract | 10 |
| Private Hire | 8 |
| All Types | 30 |

Thus, by applying the figure of 30% to the figures given in Table 5.1, it is possible to assess that NBC accounted for approximately 3.3% of all passenger journeys in Great Britain in 1979. This assessment is accepted by NBC planners.

In respect of the air mode, described in Table 5.1, the figures relate to Great Britain, Northern Ireland and the Channel Islands. However, passenger traffic of that description represents only a minor proportion of the total passenger miles conveyed by British Airways. But, by way of comparison, it should be noted that the 'domestic' (in this case United Kingdom and Eire) passenger miles in the year ended 31 March 1980 conveyed by British Airways amounted to 1.2 million, compared with a total of 1.9 million passenger miles in 1979 recorded in Table 5.1.

The existence of British Airways is not fundamentally related to domestic flights but to the conveyance of passengers, goods and mails on international flights. It is by far the largest United Kingdom airways operating company, particularly as a result of its schedules services. Details of the passengers carried and passenger miles conveyed in scheduled services operated by all UK operating companies and British Airways, in 1979, are given in Table 5.4.

| | Passengers Carried (Millions) | Passenger Miles (000 millions) |
|---|---|---|
| All UK Operating Companies | 15.1 | 27.5 |
| British Airways * | 12.5 | 24.8 |
| | % | % |
| BA % of Total | 82.8 | 90.2 |

* Figures relate to year ended 31/3/80 and are thus only approximately comparable

Table 5.4. Passengers Carried and Passenger Miles of All United Kingdom Operating Companies and British Airways in 1979

(Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980 and British Airways Annual Report and Accounts 1979/80)

Turning to the transport of goods, the total (Great Britain) tonne miles conveyed in the years 1969 and 1979 were as depicted in Table 5.5. These figures exclude coastal shipping (which amounted to 24.2 thousand million and 20 thousand million in 1969 and 1976, respectively). This avoids confusion since a large part of coastal shipping consists of the carriage of oil and petroleum products between Great Britain and Northern Ireland. The rail share relates entirely to the British Railways Board. It excludes parcels traffic conveyed in passenger trains and thus the bulk of Post Office parcels traffic. However, the share attributed to road conveyance involves the NFC, independant hauliers and organisations/individuals operating their own vehicles.

The NFC and independant hauliers together are generally described as 'public haulage' and the organisations/individuals operating their own vehicles as 'own-account' operators in

| | Tonne Miles (Thousand million) | | | |
|---|---|---|---|---|
| | 1969 | | 1979 | |
| | Nos | % | Nos | % |
| Road (excluding work done by foreign vehicles) | 51.8 | 74.7 | 65.0 | 77.5 |
| Rail (excluding parcels conveyed on passenger trains) | 15.7 | 22.7 | 12.4 | 14.8 |
| Inland Waterways | 0.1 | 0.1 | 0.1 | 0.1 |
| Pipeline | 1.7 | 2.5 | 6.4 | 7.6 |
| All Modes * | 69.3 | 100.0 | 83.9 | 100.0 |

* excluding coastal shipping

Table 5.5. Goods Transport in Great Britain 1969 and 1979

(Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980)

Government statistics. The figures for 1979 in respect of goods moved by road in Great Britain are analysed between these two headings in Table 5.6. There is no equivalent figure available for NFC but a comparison of the NFC vehicle fleet against the number of vehicles operated by public hauliers (505,700 at 30 September 1979), published in 'Transport Statistics Great Britain 1969 - 1979' suggests that NFC carries about 7% of the total goods traffic conveyed in Great Britain by public hauliers and, consequently, about 4% of the total conveyed by all modes. The NFC estimate of these comparisons amount to a little less than 10% and 5%, respectively, in 1981 taking into account an assessment of the impact of comparative vehicle sizes and the number of additional trailer vehicles and containers.

Relatively speaking, very little 'domestic' goods traffic is

| | Tonne Miles (Thousand million) | |
|---|---|---|
| | Nos | % |
| Mainly Public Haulage | 39.5 | 60.8 |
| Mainly Own-Account | 25.5 | 39.2 |
| | 65.0 | 100.0 |

Table 5.6. Goods Transport in Great Britain by Road in 1979

(Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980)

conveyed in Great Britain by air and thus it is excluded from the figures reproduced in Table 5.5. Excluding mails, it amounted to 6.3 million tonne miles in 1979 (source - 'Transport Statistics Great Britain 1969 - 1979'), only 0.01% of the total included in Table 5.5. The British Airways domestic carryings amounted to 6.0 million tonne miles in 1979/80 but that figure included Northern Ireland and Eire and is not therefore a fully satisfactory comparison.

On the international front, however, British Airways is by far the largest UK based operating company as can be seen from examining the 1979 results depicted in Table 5.7.

Turning to the comparison of the four organisations in terms of their markets, culture, patterns of growth/contraction, organisation structures and financial situations, it is clear that there are similarities but also considerable differences. These differences will be seen in Parts 3 and 4, to have had a bearing on the question of the extent to which coordinated corporate planning exists in the nationalised transport sector

| | Tonne Miles (Millions) | |
|---|---|---|
| | Mail | Goods |
| All UK Operating Companies | 109.0 | 658.7 |
| British Airways * | 105.7 | 614.4 |
| | % | % |
| BA % of Total | 97.0 | 93.3 |

* Figures relate to year ended 31/3/80 and are thus only approximately comparable

Table 5.7. Net Tonne Miles of Mail and Goods Carried by all United Kingdom Operating Companies and British Airways in 1979

(Sources - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980 and British Airways Annual Report and Accounts 1979/80)

and on their individual approaches to the process of corporate planning.

In terms of markets, it is a common misconception to associate the word monopoly with the activities of the nationalised industries. A monopoly situation exists to some extent in respect of British Telecommunications and the Post Office (in respect of letter mails rather than parcels) but it is much less so in respect of most nationalised industries, and particularly those in the transport sector. Indeed, Thompson and Hunter (1973) have commented that 'One of the most significant facts about the industries nationalised in the immediate post-war period is that none of them is a complete monopoly.'

The British Railways Board operates, for example, in a diverse

market, each part of which has its differing problems and potential. Looking first at its Passenger business, it will be made clear in Chapter 6 that this consists of four market sectors. The Inter-city sector is regarded by the BRB as the only 'commercial' sector within its Passenger business which, despite Government grant arrangements covering the entire Passenger business loss, should be run as a profit-making concern. Trading in that sector is mainly conducted in competition with motor car travel but also with the 'express' services provided by NBC, private coach operators and the domestic flights provided by BA.

The London and South East sector is probably the nearest the BRB gets to a monopoly situation with the distribution of London commuter traffic in 1979 being as depicted in Table 5.8. The BRB share of the market, expressed in terms of passenger miles, has not changed significantly in the last 20 years (it was 35.8% in 1961 and 39.5% in 1971) and it is generally thought by the BRB that its market share is a 'fairly captured market', with the alternative modes being difficult to adopt by most of the rail users because of journey times, traffic congestion and parking difficulties. Even so, the market share in 1979 of 39.3% was a long way from a monopoly situation with London Transport buses and underground trains attaining a slightly larger share (42.5%) and private transport 18.2%.

The Passenger Transport Executives (PTE) sector is regarded by the BRB as the one area of successful moves in the direction of road/rail coordination. In this respect, the PTE's, who

| | Persons | |
|---|---|---|
| | 000's | % |
| Public Transport | | |
| British Rail | 421 | 39.3 |
| London Transport | | |
| - Rail | 343 | 32.0 |
| - Bus | 112 | 10.5 |
| | 876 | 81.8 |
| Private Transport | | |
| Private Car | 173 | 16.2 |
| Motor cycle and pedal cycle | 22 | 2.0 |
| | 195 | 18.2 |
| All Transport | 1,071 | 100.0 |

Table 5.8. London Commuter Traffic 1979

(Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980)

operate stage-carriage bus services, in some instances in conjunction with NBC, have developed road/rail interchange arrangements and have supported the continuation and development of those rail services which they see as being more advantageous to the consumers than bus services or motor car useage. This has not led to a restriction of freedom of choice but has meant that, in some cases, and for social/environmental reasons, special efforts (such as lower prices subsidised by the PTE grants) have been made to make rail services more attractive than they would otherwise be.

The Other Provincial services are operated in competition mainly with motor car travel, but also with NBC/SBG bus services and, to a small extent, municipal bus services. The strength of this

competition (particularly motor car) is such that there has been a very large reduction in patronage since the Second World War which resulted in the withdrawals of services ('Reshaping' report) discussed in Chapter 6.

Moving to the BRB Freight business, again the main competition has been in respect of road transport, both public hauliers (mainly independent hauliers but also NFC) and 'own-account' transport. The advent of motorways, other road improvements, larger and more efficient lorries has led to a substantial run down in the quantity of rail-borne freight since the War. It will be seen in Chapter 6 that this has led to the development of the trainload concept under which the BRB is attempting to retain that portion of the traffic to which it feels best suited i.e. long distance heavy loads. All attempts at staying in the general merchandise traffic field have been concentrated on a selective basis on 'Speedlink' and 'Freightliner' services, basically serving main conurbations and ports. It could be argued that the high volume of NCB coal traffic conveyed by train (particularly that to power stations) constitutes a monopoly situation. However, the BRB consider that this traffic is best suited to rail and remains with the BRB because of the competitive price which is charged and not for social/environmental or even political reasons.

The Parcels situation is equally competitive. In respect of C & D parcels (i.e. requiring collection and/or delivery by road), the main competitors have been the NFC, the Post Office and a very large number of public hauliers and own-account

operators. For many years, the BRB has made losses in this sector and has considered that there has been general over-capacity causing some operators (certainly NFC and the Post Office) to suffer poor financial returns. The BRB proposal to withdraw from the C & D sector on 1 July 1981, which will be discussed further in Chapter 6, was related to this problem.

In respect of the remaining BRB parcels traffic, known as 'station to station' (S to S) parcels, the competitive situation is not the same in that the BRB consider that they can occupy a particular niche in respect of newspaper, Post Office and, to a lesser extent, Red Star traffic. However, even in these areas, anxiety exists about whether the newspaper and Post Office traffic, which to a limited extent has been switched to road in recent years (mostly own-account), might be transferred in larger quantities if the price levels are not kept to a very competitive level.

Similarly, competitive situations exist in respect of some of the BRB subsidiary businesses. In particular, the cross-channel ferry competition is very intense and, in the last two years, has produced a 'cost-cutting war' which has severely affected the profitability of Sealink UK Ltd and BR Hovercraft Ltd.

In respect of the National Freight Corporation, the main competition has stemmed from other public hauliers, own-account operators and, to a relatively small degree, the BRB, in respect of its Speedlink and Freightliner services. It was noted earlier that this competition is so extensive that NFC occupies less than 5% of the total market. This amounts to less than 10%

of the 'public haulage' market share.

Competition to NFC is provided by 125,500 public-haulage operators (Source : Transport Statistics Great Britain 1969 - 1979 - with 'operators' meaning number of holders of operating licences). Almost 90% of these operators run 5 vehicles or fewer and only 300 (approximately) run 100 vehicles or more. The NFC is by far the largest road freight haulage business and it is also the most diverse.

NFC planners describe the competitive situation as being 'cut-throat' with a heavy emphasis on aggressive marketing, involving keen pricing and reliability. It will be seen shortly that the NFC approach also involves a high degree of specialisation.

Moving to the National Bus Company, its stage-carriage operations are run mainly in competition with private motor car travel and, to a lesser degree, BRB Other Provincial Services but also, to some extent, in competition with municipal and private bus operators. In some municipal areas there are service coordination agreements in conjunction with local authorities (see Chapter 8). The NBC portion of the passenger transport market is described by NBC planners as not being related to any particular socio-economic group or even to non-car owning families. Instead, it is considered that a large part of the traffic relates to members of one-car owning families. As discussed earlier, the NBC share of the stage-carriage market amounted to approximately 35% in 1979.

In respect of its express coach services, the main competition stems from the BRB, private motor car travel and private coach operators. It was noted earlier that the NBC share of the express coach market amounted to approximately 50% in 1979. Since 1980, as a consequence of a change of legislation, concerning road service licences, the private coach competition has become more intense. This has resulted in severe price cutting and NBC consider that this has actually increased their market share. Details of the revised situation are given in Chapter 8.

In terms of the structure of the express coach market, it is clear from a survey of long distance journeys, conducted in 1978/79 (Source : 'Transport Statistics Great Britain 1969 - 1979'), that the main users tend to be in the lower socio-economic 'worker' groupings, plus students, housewives, retired people, disabled people and unemployed people.

The main competitors in the excursion and tours market are the private coach operators who also feature heavily in the contract and private hire market. Details of this competition, in terms of passenger journeys, has been provided in Table 5.2.

Finally, in respect of British Airways, the international competition is very fierce, with most industrialised countries having one international airline and the United States of America having no less than six large airlines. Using output statistics of available tonne kilometres and passengers published by the International Air Transport Association (1981), BA is the fifth largest airline in the world. However, those

statistics do not include the USSR state-owned airline or Pan American Airline, and BA planners consider that BA is really the sixth largest international airline. On the other hand, they describe BA as having the largest route network in the world, serving the largest number of countries.

International competition is restricted in terms of routes and services by a large number of bilateral agreements negotiated at Government level. However, the passengers and freight customers at most airports generally have freedom of choice as to which of the available airlines to use. General overcapacity in scheduled services, the growth of charter services and the recent (1979) elimination of large scale and long-standing price fixing arrangements (discussed in Chapter 9) have led to severe price-cutting in the last two years on the part of all of the international airlines. This has been particularly prevalent in respect of trans-continental flights.

The situation in regard to domestic UK flights is also highly competitive with the BRB inter-city services and Aer Lingus (to Ireland) being the main competitors. It was noted earlier (Table 5.1.) that the BA share of the total domestic passenger market (measured in passenger miles) in 1979 was very small but it represented almost 8% of the market share held by the BRB and 18% of the BRB inter-city market share.

It is interesting to note that, because of excess capacity and low prices, many of the International Air Transport Association's (IATA) 111 members are in some form of financial difficulty.

In 1980, they collectively sustained losses of £602m (Financial Times 26 October 1981) and the Director General of IATA predicted that 'There is little hope of a return to profitability' in 1981. It will be observed in Chapter 9 that the BA loss in 1980/81 was a very substantial proportion of the overall IATA figure.

In summary, the market situation being experienced by each of the four organisations covered in this research is one of high competition but from varying sources and with varying degrees of intensity. The amount of cross-competition noted in earlier paragraphs is not as significant as that from outside the nationalised transport sector i.e. motor cars (BRB/NBC), private haulage and own-account vehicles (BRB/NFC) and international airlines (BA). The main associated similarity arises from the fact that each organisation has had to develop a reaction to the growth in this external competition. This reaction has been a considerable stimulous to the corporate planning activities of each of the organisations. Indeed, as one would expect, each of the organisations has developed a different culture related to a large extent, to the markets in which they operate. These varying cultures will also be seen to have a considerable bearing on the corporate planning activities.

The BRB culture is one which fully accepts the status of the organisation as being nationalised and, in respect of the bulk of the Passenger business, also being subsidised. Indeed, the subsidy is regarded by BRB management as a 'contract payment' for providing socially necessary services. Apart from the

Inter-city sector, the remaining sectors of the Passenger business are regarded as social services which should be subsidised by Central and Local (PTE's in the main but with a few services supported by shire counties) Government to the full extent that receipts do not cover costs. This also applies to investment in these three 'social' sectors, where the attitude is that it is up to Government to provide the funds necessary to replace the assets when they are life expired. This replacement is generally seen as being on a like-for-like basis but with electric multiple units being substituted for diesel multiple units if the Government is prepared to provide the additional investment funds. The Inter-city sector is, on the other hand, regarded as the 'cream' and receives the largest amount of management time and effort (and investment funds) to ensure its development. Here the accent is on developing faster trains which will reduce journey times between large towns and cities and on the desire for a massive extension of main-line electrification for commercial rather than social reasons.

In terms of varying the market share, on the Passenger side, the attitude is that it is necessary to maintain the status quo in the L & SE and Other Provincial sectors. No expansions or contractions are seriously postulated and the only growth which is seen to be likely is related to suburban electrification projects. Growth in the Inter-city sector is also seen as being related mainly to investment. This applies also in PTE areas where the intention is that any developments will wholly or largely funded by the PTE's.

Over-riding all of these considerations there have existed two primary attitudes. The first is that passenger price levels should always be as close as possible to the perceived market price. This has led to the existence of a high price / low volume Passenger business where the accent has been on keeping the Government's Passenger grant to a minimum level rather than attempting to maximise some form of social benefit. It will be established in Chapter 6 that the BRB does not have a meaningful non-financial objective and thus considers that its price/volume attitude has been correct. However, it will also be seen in Chapter 6 that, the attitude to passenger price levels has begun to change in 1981 as a result of the economic recession and the advent of the express coach price-cutting situation. Experimental prices are being introduced covering journeys (with some restrictions) from large towns to London at fares which are approximately one-third of normal, which, if extended, would result in a fundamental shift in the pricing strategy.

The second attitude concerns safety where every effort is made to ensure that safety standards are of an extremely high order. Whilst it has not been quantified, it is generally accepted within the BRB that this attitude adds heavily to running costs and investment needs. Standards of safety are regularly monitored by the Department of Transport (Railways Inspectorate) who also lay down a large number of operating rules and equipment specifications.

Turning to the Freight and Parcels businesses, these are seen as being wholly commercial. However, the emphasis is not placed

upon a search for growth but in maintaining high ('market') prices and in rationalisation of operating practices with a view to reducing resources to a level consistent with traffic offered and, more recently, that which is considered to be best suited to rail.

It will be seen in Chapter 16, that these resource and cost reduction aspirations (mainly those related to the Freight business) have not been wholly achieved in the last five years. This non-achievement has been partly connected with a lack of an aggressive attitude towards implementing change. This has been related in many ways to the natural opposition of the three main Trade Unions and the comprehensive consultation procedure which has to be followed in connection with every proposal. Indeed, the opposition was such that there has been a 'no-compulsory redundancy' agreement which has meant that all manpower resource reductions have had to be linked to natural wastage.

By contrast, the NFC culture is one of an aggressive search for change. Since its creation in 1969, an attitude has been developed that it is essential to create financial viability and not remain as yet another 'loss-making nationalised industry'. To this end, considerable efforts have been made to rationalise operating practices and withdraw from unprofitable traffics and those with a doubtful future and move into new and generally specialised areas with greater and longer lasting potential. The recent moves towards de-nationalisation (discussed in Chapter 7) are viewed with considerable enthusiasm because it is believed that the Company has a viable future and does not need the

protection of Government ownership or the additional disciplines that go with it.

NFC planners have explained to the author that the search for change, which has resulted in the development of specialised activities and contract-based traffic was spurred on by the large losses which were sustained in 1975. That resulted in NFC management resolving to make the business more robust and less liable to suffer heavily in times of industrial recession. As a result of these efforts, NFC has evolved from being largely a general haulage contractor to being what they describe as a 'diverse freight business, capable of weathering economic storms.'

Turning to the National Bus Company, its culture, like that of the BRB, wholly accepts the status of being nationalised and recent Government suggestions of de-nationalisation (see Chapter 8) are not viewed as being necessarily capable of achievement, except on a small scale i.e. selected companies or services. Its endeavours are addressed mainly to attempting to maintain the size of the stage carriage networks whilst staying within the financial constraints laid down by Government. This has placed the emphasis on a constant search for operating improvements and related resource reductions. However, the scope for cost savings within NBC has not been found to be sufficient to match the losses of passengers to other modes (mainly private motor cars) and this has meant that subsidies have been necessary. This has generated considerable efforts at maximising the service deficit grants which, since 1975, have been available from Local Authorities. Consequently, this has led to

a culture of working closely with local authorities (mainly county councils) and ensuring that their perceived needs and conditions are met.

In respect of the express coach services, the emphasis until 1980 was on maintaining the route structure and maintaining price levels as high as possible (i.e. as close as possible to the perceived market price). However, since 1980, and for the reason noted earlier, a more aggressive price cutting attitude has been struck with a totally new level of market price being in operation. This has resulted in a new attitude of attempting to obtain an increase in the market share, largely at the expense of the private coach operators but also the BRB.

British Airways planners describe its culture as aggressive and fundamentally concerned with expansion and commercial viability. Expansion aspirations are directed into capturing a larger share of a growing market for scheduled international services conveying passengers, mail and freight and also for air tours. High quality services, extensive advertising and, since 1979, low price levels, are seen as the main means of achieving this. Additionally, British Airways has attempted to maintain its wide variety of routes even though many of them could not be justified in wholly commercial terms. However, some reductions are now being contemplated (Autumn 1981) in order to reduce losses.

This desire for expansion has been coupled with the need to replace older aircraft and has led to the purchase of larger aircraft with a significantly increased payload. As in the

BRB, one of the most vital considerations is safety which has been given a high ranking in all investment and operational decisions. During the last decade, there has been no great emphasis placed upon reducing resources, including manpower, because of the essentially expansionist philosophy and because of productivity improvements being generated by traffic growth and increased aircraft payload. However, in an attempt to reduce the heavy losses experienced in the last financial year (year ended 31 March 1981), a change of emphasis has obtained and special effort was made to reduce manpower by changing working practices. This process is continuing and has now become an essential feature of the BA culture. Further details will be given in Chapters 9 and 14.

The patterns of growth or contraction experienced by the four organisations have, of course, been related to the market changes and cultural features noted in preceding pages. Summary details are given in the following paragraphs, drawing upon more detailed information given in Chapters 6 to 9.

In respect of the BRB, which was created on 1 January 1963, it will be seen, in Chapter 6, that the volume of Passenger activity measured in terms of Passenger miles was, in 1980, approximately equal to the level in 1963. Within that figure there has been a substantial decline in what are now regarded as Other Provincial services offset by increases in Inter-city travel. By contrast, there has been a very large (32%) reduction in freight tonne miles since 1963 and an even larger (approximately 50%) reduction in parcels carryings.

These Other Provincial (Passenger), Freight and Parcels reductions which have been almost wholly related to competition from the private motor car / public (not NFC in the main) and own-account haulage, have resulted in massive reductions in resources since 1963. Many of the details are recorded in Chapter 6 but it is well to note here that they include the following:-

| Resource * | 1963 to 1980 Reduced by % |
|---|---|
| Route miles | 27 |
| Locomotives | 73 |
| Passenger Coaching vehicles | 52 |
| Freight vehicles | 87 |
| Staff numbers | 57 |

* Railways business only

In NFC the extent of growth/contraction in traffic carried since 1969 (the effective date of its creation) is difficult to measure in volume terms. This is because NFC does not publish or produce data in respect of the volume of business in terms of tonne miles or tonnes carried. Instead, reference has to be made to turnover and vehicle mileage. In regard to turnover, this increased from £168m in 1969 to £432m in 1979. However, allowing for inflation (using the retail price index increase as a proxy for inflation - Source : Central Statistical Office Economic Trends), the 1969 turnover was approximately equal to £546m in 1979 price levels. The 1979 level therefore represented a decline in carryings of 21%. This was more than matched by a 31% reduction in vehicle mileage during the same period.

In terms of resources, however, traffic vehicles were reduced by

37%, the aggregate tonnage capacity of those vehicles by 34% and staff numbers by 47%. The relatively larger reductions in resources compared with traffic carried has reflected the rationalisation of operating practices, withdrawal from unprofitable traffics and the increased specialisation strategy noted earlier.

In NBC, the volume of business has declined since 1969, the first year of its operation. The reductions have been due, in the main, to growing competition from private motor cars. Measured in terms of passenger journeys, there has been a 42% reduction in carryings between 1969 and 1980. NBC have attempted to rationalise services and operating practices (e.g. crewing) to offset the related volume reductions in turnover but have been unable to make wholly matching cost savings. For example, they have only been able to reduce vehicle miles by 19%, public service vehicles by 25% and staff numbers by 27%. As noted earlier, this has led to losses being sustained and to the need for Local Authority subsidies to maintain services that might otherwise have been withdrawn.

Finally, the volume of British Airways traffic has increased substantially since its creation on 1 April 1972. This growth has been related primarily to an increase in the size of the overall world-wide market for air travel, in respect of scheduled and air tours passengers, mail and freight. As will be seen in more detail in Chapter 9, this has enabled BA to increase its inherited (i.e. the results of the merged companies forming BA) passenger miles in 1971/72 (year ended

31 March) by 124% by 1980/81. Tonne miles of mails and freight have increased by 75% and 85% in the same period. Overall tonne miles including passengers have increased by 117%.

BA have managed basically to carry this increased volume of traffic without increasing the number of aircraft, flights or manpower. This has been achieved through the replacement of its older aircraft by new aircraft with a considerably larger carrying capacity.

The organisation structures of the four organisations reflect the nature of the markets in which they operate, their cultures and, as will be seen in Part 3, the strategies which they have developed. The NFC situation is similar to that of NBC. Both have placed considerable emphasis on the distinctive nature of the individual groups/companies and the central headquarters of both is small, operating as a form of holding company.

On the other hand, the BRB and BA each operate a single large business (Railways business / Airlines Group) with a number of considerably smaller 'subsidiary' businesses. These 'subsidiary' businesses are not generally subsidiary to the large business but to the main board. The management structures of both the BRB and BA are such that there is no completely clear-cut identification of an organisation structure which is solely responsible for the management of the Railways business or the Airlines Group, respectively. Instead, many board members and other executives have joint responsibilities i.e. for the corporate entity and for the running of the main business.

Moving finally to the relative financial situations of the four organisations, it will be seen in Chapters 6 to 9 that each is in some financial difficulty (partly as a result of the current economic recession) and that each has sustained losses in a number of years since its creation. The NFC has recently undergone its second capital reconstruction (involving a reduction in capital liabilities to the Department of Transport), on this occasion as a prelude to impending denationalisation. On the evidence provided in Chapters 6, 8 and 9, it seems likely that each of the other three organisations will also shortly require some form of capital reconstruction involving, in the case of BA at least, the injection of additional capital by Government.

# CHAPTER 6

# BRITISH RAILWAYS BOARD

This chapter contains a considerable amount of information, additional to that provided in chapter 5, concerning the British Railways Board. In terms of length and detail, it is much more comprehensive than chapters 7 to 9 which cover the other three organisations dealt with in this thesis. The reason for providing the additional detail is that it is considered necessary not only to provide the information designed to facilitate an understanding of the nature, size and problems of the organisation (as in chapters 7 to 9) but to provide a good deal of financial and other data (from 1975 to 1981) which will be used in the 'success' assessment undertaken in chapter 16. Additionally, the author considers it appropriate to provide a fairly detailed historical perspective as a background to the strategic considerations discussed in chapter 11.

With these points in mind, it is intended to divide this chapter into three sections, as follows:-

6.1. Nature, Size and Historical Perspective

6.2. Financial History

6.3. Current Financial Situation and Immediate Prospects

## 6.1. Nature, Size and Historical Perspective

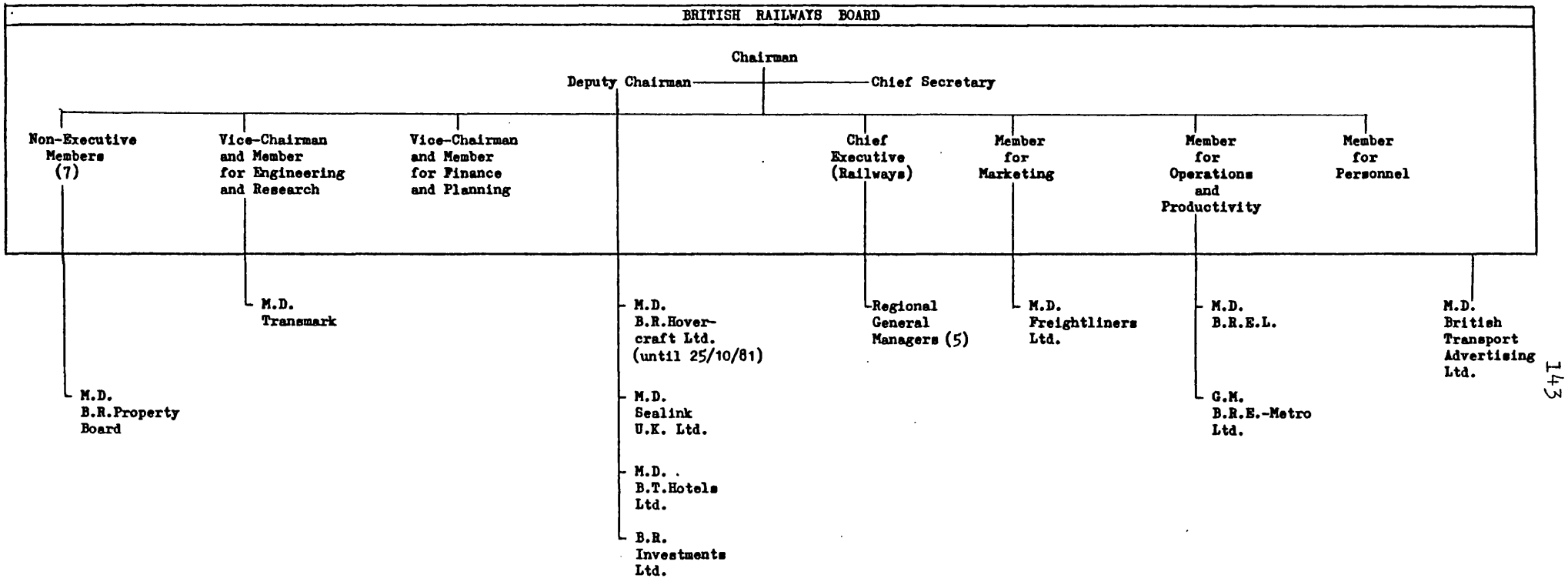
The British Railways Board (BRB) is a large and important nationalised industry which has seen halcyon days, is adapting itself to environmental change and has a future which is not

certain. It is not one business but many, all coming under the umbrella title of the British Railways Board, or in public relations jargon, 'British Rail'. The entire complex is a very large and varied business. It is one of the largest employers in the United Kingdom; it employed just over 239,500 people at the end of 1980, which represented about 0.9% of the United Kingdom labour force.

The main businesses within the BRB are

| | |
|---|---|
| Railways | |
| British Rail Engineering Ltd (BREL) | ) |
| British Transport Hotels Ltd (BTH) | ) |
| British Railways Property Board | ) Known collectively |
| Sealink (U.K.) Ltd | ) as the 'subsidiary |
| British Rail Hovercraft Ltd | ) businesses' |
| Freightliners Ltd | ) |
| Transportation Systems and Market Research Ltd (Transmark) | ) |

The British Railways Board was created on 1 January, 1963, under the Transport Act, 1962. The Board members are charged with the overall responsibility of running all of these businesses, most of which were inherited from the British Transport Commission. The main organisational structure is given in fig. 6.1, where it can be seen that the boards of the businesses are responsible to the main board members. This they do through their managing directors, or equivalent in the case of those which are not limited companies. The chairman of each subsidiary business is usually a full-time board member



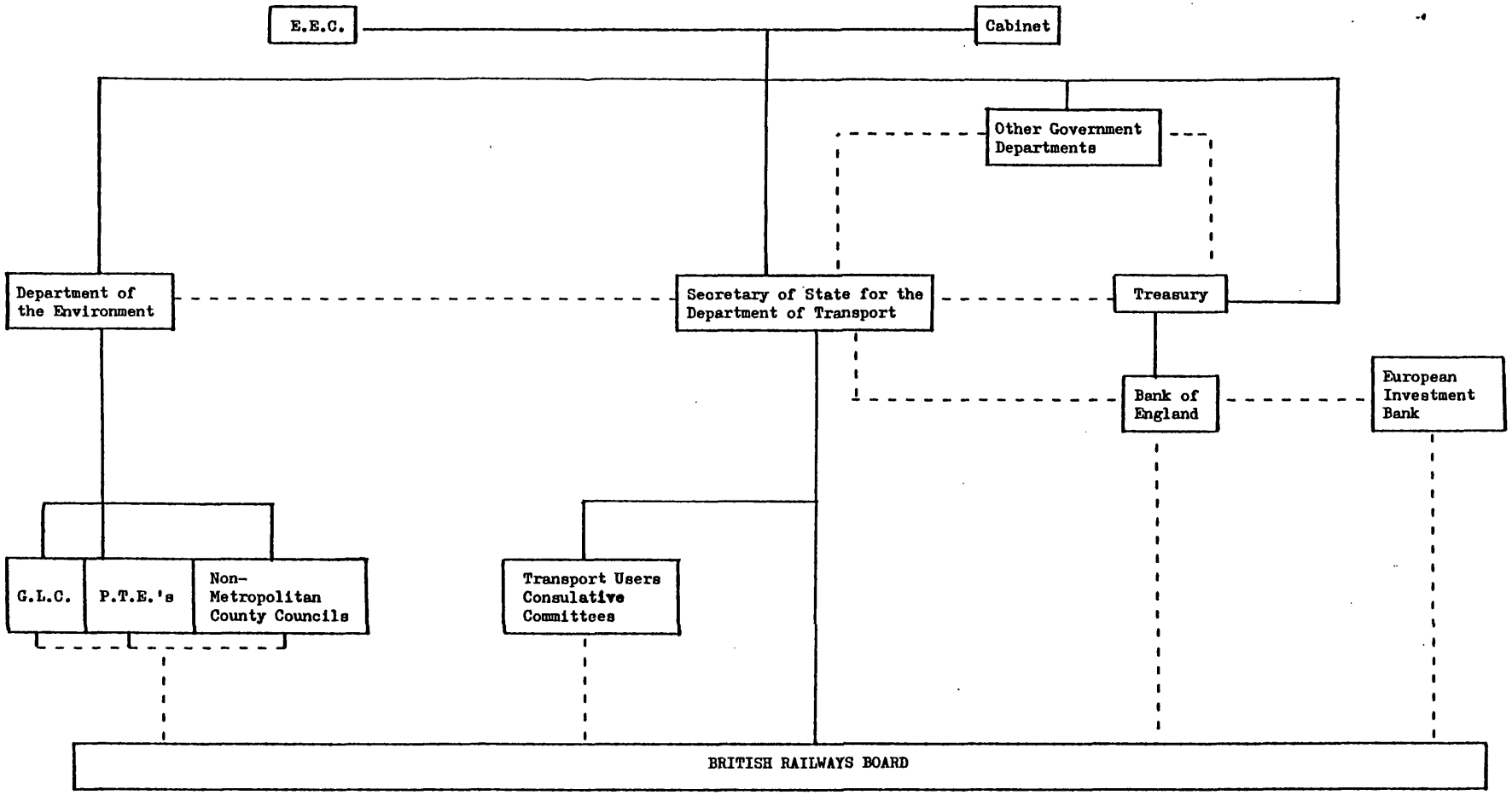

Notes

1. The chairman of B.R. Property Board is one of the part-time board members (Sir Robert Lawrence)
2. The chairman of British Transport Advertising Ltd. is a retired board member of the B.R.B.

FIGURE 6.1. BRITISH RAILWAYS BOARD - BOARD MEMBERS AND MAIN ACTIVITIES
(SOURCE : B.R.B. INTERNAL RECORDS)

of the BRB. The chief executive of the Railways business is also a full-time board member. He is responsible for the general managers of the five geographical regions of the Railways business. In May 1981, there were eight full-time and seven part-time members of the British Railways Board. The chairman is one of the full-time members and each of the remaining full-time members has executive responsibility. The board membership responsibility structure was changed in January 1977. Prior to that date it was a board on which no member had executive responsibility. The board is responsible to the Secretary of State for Transport who appoints all board members, including the part-time members who do not represent any special interests such as Government, trade unions, etc.

There are a number of other organisations above the BRB to which it owes a measure of responsibility and the most significant of these are given in fig. 6.2. The BRB does not work in an independent manner; the controls over its operations are considerable and stem in the main from the organisations quoted. The relationships with these organisations are complex and related to individual aspects of running the business. In theory, contact with central government departments is via the Secretary of State for the Department of Transport but, in practice, direct contact at lower levels frequently occurs or joint discussions, e.g. with the Treasury, are held. The Department of Transport has responsibilities with respect to establishing and/or agreeing objectives (including cash limits), setting policy guidelines, strategy approval, plan approval, major investment approval and monitoring the performance of



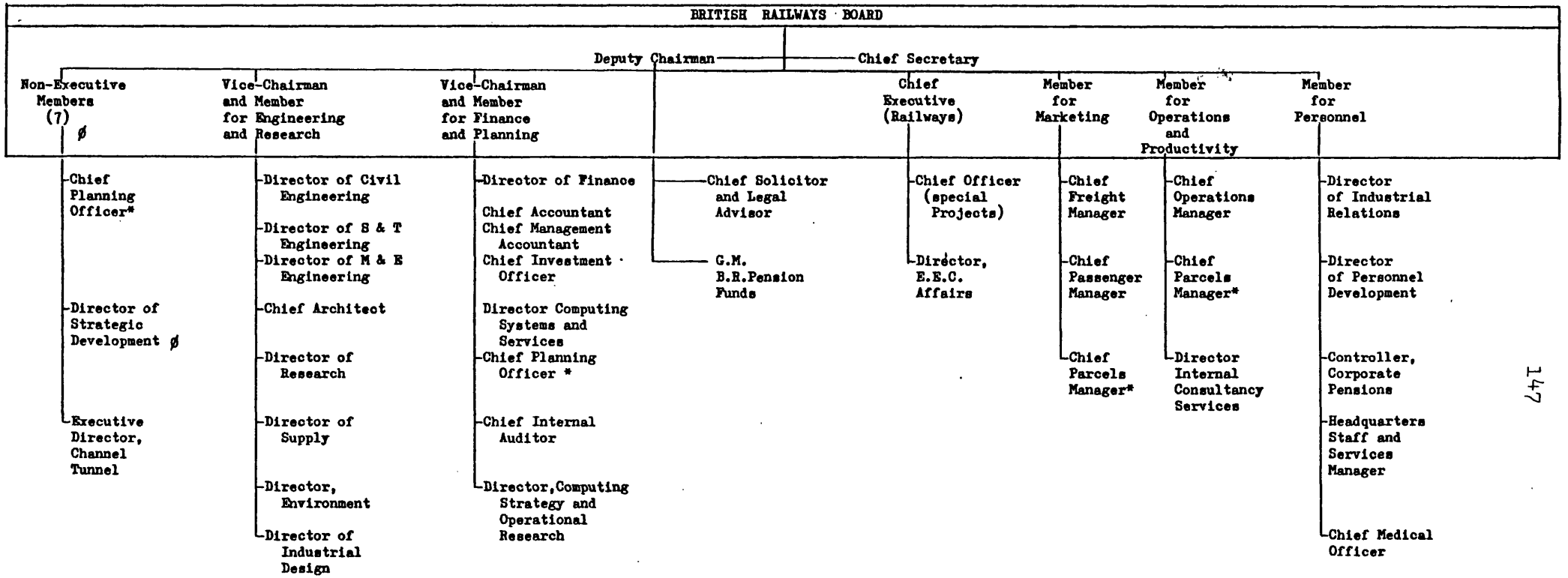

Notes : Unbroken lines indicate direct responsibility.
Broken lines indicate spheres of influence.

Fig. 6.2 British Railways Board - Main Relationships with Government.
(Source : discussions with B.R.B. executives)

these. The Secretary of State is, in turn, responsible to the Cabinet and Parliament to ensure that the board manages its business in line with statutes and directives. The board is not autonomous as is that of an ordinary public company. The statutes and directives represent major disciplines and constraints, many of which would be present even if the BRB were in a profit-making situation.

The individual businesses within the BRB are self-accounting but are not autonomous. They are analogous to divisions in a large company. They make decisions concerning the day-to-day running of the businesses and the implementation of strategy but have no independence in matters of a strategic nature or in respect of large investment (i.e. in corporate planning). Indeed, there is a high degree of central control over all strategic decisions. However, as will be made clear in chapter 10, each business plays a large part in the development of its portion of the strategy and a 'corporate plan' is prepared for each business as well as an overall corporate plan.

The board members exercise their responsibilities through a number of functional chief officers who are in day-to-day contact with the Railways business regional general managers and the managing directors (or equivalent) of the subsidiary businesses. They also have links with the functional officers of the Railways regions and their equivalents in the other businesses. Details of the chief officer structure are given in fig. 6.3. This chart indicates the executive




* Indicates that the officer also responds to another Board Member.

ø Reports to Mr. M.V. Posner, one of the Part-time Board Members.

FIGURE 6.3. BRITISH RAILWAYS BOARD - BOARD MEMBERS AND CHIEF OFFICERS

(SOURCE : B.R.B. INTERNAL RECORDS)

relationship with the full-time board members and one of the part-time board members. The remaining part-time board members relate to the chief officers as necessary as, indeed, does each full-time board member in regard to matters outside his direct responsibility. Information concerning the involvement of board members and chief officers in corporate planning will be given in chapter 10.

To consider the nature and size of the BRB in more detail and in an historical perspective, it is useful to consider each of its constituent businesses in turn, with particularly detailed reference to the largest business - the Railways business. This is undertaken in the sub-sections which follow.

### 6.1.1. Railways

This is far and away the biggest and most important business and consists of a railway network covering much of Great Britain, providing Passenger, Freight and Parcels services. In terms of turnover, it represents in 1981 about 85% of the total business. In organisational terms, it is divided into five regions - Eastern, London Midland, Scottish, Southern and Western. Apart from the Scottish, these regions are in turn divided into divisions. They are all further divided into areas. Each region is headed by a general manager whose status is considered in the BRB to be similar to that of a managing director of one of the larger subsidiary businesses. The regional and divisional organisations are functionally constructed, broadly covering marketing (passenger, freight and parcels separately), operations (running of trains and

terminals) mechanical and electrical engineering (maintenance of permanent way and structures), signal and telecommunication engineering (maintenance of trackside signalling and telecommunications equipment), management accounting (most financial accounting is centralised at BRB headquarters), personnel (industrial relations and general staff matters) and planning (which, in this context, is in respect of investment programming and monitoring). The divisions and areas are of four types: traffic, mechanical and electrical engineering, civil engineering and signal and telecommunication engineering.

An attempt was made to standardise the organisation by eliminating the divisional level following a consultant's report (McKinsey & Co) but this was abandoned in January 1975 because of union and staff opposition and the likely high costs involved in staff movement and general dislocation of administration if the recommendations were followed. However, since that time, the numbers of staff employed at divisional headquarters' offices has been greatly reduced, partly as a result of centralisation of work at regional level. Fresh consideration is being given to the concept of elimination of a tier of management at least in respect of some functions.

The Railways business covers three sub-businesses which are the Passenger business, the Freight business and the Parcels business. To a large extent, these businesses share the same resources, particularly track, locomotives and administrative manpower.

The extent of these resources gives a good guide to the size of the Railways business. Details of the significant items are provided in Table 6.1. under key dates, selected, apart from 31/12/80, because of their significance in terms of legislation which will be described shortly. Derivatives relating to some of these items have already been quoted in chapter 5.

It can be seen that there have been significant reductions in the resources owned and used by the Railways business in the 28 years of the existence of the British Railways Board. These changes have been related to the changes in market conditions noted in chapter 5, legislation and to a few major decisions. Details of the legislation and major decisions will be provided in section 6.2. For the remainder of this sub-section, it is intended to pursue further the nature and size of the three businesses within the Railways business, with reference to the historical information given in Table 6.1. and other, largely physical, data.

The Passenger business is the largest business measured in terms of receipts and utilisation of the largely joint resources. However, this was not the case in 1963, when the Freight business was the largest under these criteria. This change has been brought about by the decline in Freight carryings and resources, rather than by expansion of the Passenger business. Indeed, during the period 1963 to 1980, the size of the Passenger business carryings has, in fact, changed comparatively little overall, as can be seen from the evidence given in

| | Position as at | | | |
|---|---|---|---|---|
| | 1/1/63 | 31/12/68 | 31/12/74 | 31/12/80 |
| | Nos. | Nos. | Nos. | Nos. |
| **Resources** | | | | |
| Route Miles | 17,481 | 12,447 | 11,289 | 10,964 |
| Track Miles | | | | |
| Running lines | 33,655 | 25,271 | 22,488 | 21,811 |
| Sidings | 13,888 | 8,705 | 6,780 | 5,457 |
| | 47,543 | 33,976 | 29,268 | 27,268 |
| Terminals | | | | |
| Passenger with Freight and Parcels | 4,306 | 2,616 | 2,355 | 2,366 |
| Freight only | 2,479 | 598 | 418 | 409 |
| Parcels only | 16 | 21 | 17 | 12 |
| | 6,801 | 3,235 | 2,790 | 2,787 |
| Marshalling Yards | 602 | 184 | 49 | 34 |
| HST Vehicles | | | | |
| Power Cars | - | - | - | 142 |
| Coaches | - | - | - | 630 |
| | - | - | - | 772 |
| Locomotives | | | | |
| Diesel | 3,683 | 4,326 | 3,619 | 3,078 |
| Electric | 178 | 329 | 352 | 301 |
| Steam | 8,767 | 3 | 3 | 3 |
| | 12,628 | 4,658 | 3,974 | 3,382 |
| Coaching Vehicles | | | | |
| Diesel Multiple Unit | 4,110 | 3,810 | 3,427 | 3,257 |
| Electric Multiple Unit | 6,996 | 7,348 | 7,156 | 7,558 |
| Locomotive Hauled | 22,715 | 8,386 | 7,154 | 5,567 |
| Total Passenger | 33,821 | 19,544 | 17,737 | 16,382 |
| Non - Passenger | 12,482 | 7,260 | 5,501 | 4,026 |
| | 46,303 | 26,804 | 23,238 | 20,408 |
| Freight Vehicles | | | | |
| Wagons | 862,640 | 437,412 | 241,429 | 119,507 |
| Containers | 46,535 | 28,470 | 3,994 | 180 |
| | 909,175 | 465,882 | 245,423 | 119,687 |
| Total Seats/Berths | 1,809,143 | 1,190,510 | 1,105,834 | 1,090,417 |
| Total Capacity of Freight Vehicles (Tonnes) | 11,348,126 | 7,356,186 | 4,600,372 | 2,769,139 |
| Staff (including corporate) | 414,646 | 257,059 | 199,468 | 178,059 |

Table 6.1. Railways Business Resources at Selected Dates

(Source : B.R.B. annual reports and accounts)

Table 6.2.

| | Year | | | |
|---|---|---|---|---|
| | 1963 | 1968 | 1974 | 1980 |
| Passenger Miles (millions) | 19,575 | 17,800 | 19,200 | 19,700 |
| INDEX | (100) | (91) | (98) | (101) |
| Passenger Journeys (millions) | 938.4 | 831.1 | 732.8 | 760.2 |
| INDEX | (100) | (89) | (78) | (81) |
| Passenger Miles per Journey (miles) | 20.9 | 21.5 | 26.3 | 25.9 |
| INDEX | (100) | (103) | (126) | (124) |
| Passenger Loaded Train Miles (millions) | 217.0 | 184.0 | 185.5 | 203.1 |
| INDEX | (100) | (85) | (85) | (94) |
| Passenger Miles per Loaded Train Mile (miles) | 90.2 | 96.9 | 103.5 | 97.0 |
| INDEX | (100) | (107) | (115) | (108) |

INDEX - 1963 = 100

Table 6.2. Passenger Business - Carryings and Train Miles 1963, 1968, 1974 and 1980

(Source : BRB annual reports and accounts)

It is interesting to note that, in terms of passenger miles, the 1980 carryings were approximately equal to the 1963 level despite a relatively significant decrease in passenger journeys. This has resulted from a 24% increase in the average distance per passenger journey. The level of passenger loaded train miles was only 6% lower in 1980 than in 1963 and, with such little change in the level of passenger miles, this has produced a small (8%) increase in passenger miles per loaded train mile, compared with the 1963 situation.

During the years 1963 to 1980, the number of Passenger and jointly used assets has, however, been reduced considerably and the absence of a similar overall decline in passenger miles and passenger loaded train miles has indicated a substantial improvement in productivity - i.e. in respect of asset utilisation (the financial and social consequences of this will not be discussed until Section 6.2). This view can be drawn from comparing the wholly Passenger indices shown in Table 6.3, which has been prepared from data given in Tables 6.1. and 6.2.

| | Index (1963 = 100) | | | |
|---|---|---|---|---|
| | 1963 | 1968 | 1974 | 1980 |
| Passenger Miles | 100 | 91 | 98 | 101 |
| Passenger Loaded Train Miles | 100 | 85 | 85 | 94 |
| Passenger Coaches (incl. HST) | 100 | 58 | 52 | 50 |
| Passenger Seats/Berths (end of year) | 100 | 66 | 61 | 60 |

Table 6.3. Passenger Business - Selected Performance Indices 1963, 1968, 1974 and 1980

It is not possible to make a similarly conclusive observation in regard to the reductions in jointly used assets but, in total, they point to the same situation. For example, the reductions in track mileage, locomotives and terminals recorded in Table 6.1. far exceeded the changes in passenger miles.

Finally, before moving on to the Freight business, it is necessary to note that, in recent years for planning and control

purposes, the Passenger business has been divided into four sectors. These are Inter-city, London and South East (L. & S.E.), Passenger Transport Executives (P.T.E.) and Other Provincial. The Inter-city sector covers express trains between major towns and the London and South East sector covers the London commuter area. The Passenger Transport Executives' sector covers the commuter services wholly or mostly within the boundaries of the six metropolitan counties in England and one in Scotland (Strathclyde). The remaining 'green field' services are grouped together and known as the Other Provincial sector.

Between 1974 and 1980 the passenger miles were recorded as being distributed as shown in Table 6.4. Over these years, there have been some changes in sector definitions, but the figures given serve to provide a good idea of the relative dimensions of each sector.

| | Year (Thousand Million) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
| Inter-city | 8.2 | 8.8 | 8.0 | 8.4 | 9.0 | 9.4 | 9.2 |
| L. & S.E. | 8.2 | 7.3 | 7.1 | 7.3 | 7.6 | 7.7 | 7.7 |
| P.T.E's ) | 2.8 | 1.6 | 1.6 | 1.5 | 1.5 | 1.7 | 1.5 |
| Other Provincial) | | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 | 1.3 |
| | 19.2 | 18.8 | 17.7 | 18.2 | 19.1 | 19.9 | 19.7 |

Table 6.4. Passenger Business - Sector Passenger Miles 1974 to 1980

(Source : BRB internal records)

As will be made clear in Section 6.2, the reduction in

passenger miles recorded in 1976, compared with 1975, resulted largely from resistance to price increases. This had its most marked effect in the Inter-city sector, the other large sector (L. & S.E.) consisting mainly of the carriage of London commuter traffic which are less able not to travel or to travel by an alternative mode. However, in comparing 1974 with 1980, there was little significant change in the total passenger miles and, correcting for changes in sector definition, the increase was almost wholly recorded in the Inter-city sector.

Turning now to the Freight business, it is clear that it has undergone considerable change since 1963. This change is portrayed in Table 6.5, where it will be observed that the main physical fact describing the extent of the carryings - freight net tonne miles - recorded a drop of 32% by 1980. This was close to the reduction of 36% in freight tonnes carried and did not, therefore, reflect any marked change in the average length of haul.

However, the reduction in freight loaded train miles has been almost twice as great as the reduction in freight tonnes and freight net tonne miles. This has resulted in a considerable improvement (93%) in the level of freight net tonne miles per loaded train mile, reflecting a doubling (approximately) of the average train loading. This has represented a substantial improvement in productivity which has been well matched by

| | Year | | | |
|---|---|---|---|---|
| | 1963 | 1968 | 1974 | 1980 |
| Freight Net Tonne Miles (millions) | 15,993 | 14,928 | 13,673 | 10,961 |
| INDEX | (100) | (93) | (85) | (68) |
| Freight Tonnes (millions) | 238.7 | 210.6 | 176.3 | 153.5 |
| INDEX | (100) | (88) | (74) | (64) |
| Freight Average Length of Haul (Miles) | 70.4 | 70.9 | 77.6 | 71.4 |
| INDEX | (100) | (101) | (110) | (101) |
| Freight Loaded Train Miles (millions) | 91.6 | 60.2 | 51.2 | 32.5 |
| INDEX | (100) | (66) | (56) | (35) |
| Freight Net Tonne Miles per Loaded Train Mile (Miles) | 174.6 | 247.8 | 269.0 | 337.6 |
| INDEX | (100) | (142) | (154) | (193) |

Index 1963 = 100

Table 6.5. Freight Business - Carryings and Train Miles 1963, 1968, 1974 and 1980

(Source : BRB annual reports and accounts)

reductions in the number of Freight and jointly used assets. The key(and wholly Freight) indices are shown in Table 6.6, which has been prepared from data given in Tables 6.1. and 6.5.

As in respect of the Passenger business, it is not possible to make a similarly conclusive observation in regard to the changes in jointly used assets but those recorded in Table 6.1 (i.e. track miles, locomotives, terminals, marshalling yards and manpower) showed equally marked reductions.

| | Index (1963 = 100) | | | |
|---|---|---|---|---|
| | 1963 | 1968 | 1974 | 1980 |
| Freight Net Tonne Miles | 100 | 93 | 85 | 68 |
| Freight Loaded Train Miles | 100 | 66 | 56 | 35 |
| Freight Vehicles | 100 | 51 | 27 | 13 |
| Freight Vehicle Capacity (end of year) | 100 | 65 | 41 | 24 |

Table 6.6. Freight Business - Selected Performance Indices 1963, 1968, 1974 and 1980

For planning and control purposes, the Freight business has, in recent years, been divided into two sectors known as Trainload and Wagonload (or more accurately 'less than trainload'). Carryings in the Wagonload sector require intermediate marshalling into trainloads, frequently on more than one occasion. This marshalling activity is not generally required in respect of Trainload sector traffic. The Trainload sector traffic is subject to negotiated contract rates, many of which have price variation clauses which tie price increases to United Kingdom inflation indices such as the Wholesale Prices Index. Negotiated rates also apply in the Wagonload sector but here scale rates are frequently used because much of the traffic is ad hoc in nature.

The Freight business traffic is also analysed by commodity. In summarised form, the commodity analysis is provided in Table 6.7. Here, it can be seen that the substantial reductions in Coal and Coke and in Iron and Steel carryings, reflecting the decline in those industries, has been the

| | Trainload and Wagonload Tonnes Carried in Year (Millions) | | | |
|---|---|---|---|---|
| | 1963 | 1968 | 1974 | 1980 |
| Coal and Coke | 153.9 | 124.7 | 88.0 | 94.2 |
| Iron and Steel | 39.9 | 39.3 | 31.0 | 12.9 |
| Other - comprising Food and Drink, Earths and Stones, Building Materials, Chemicals, Petroleum Products, Motor Vehicles and Miscellaneous | 44.9 | 46.6 | 50.1 | 38.9 |
| Freightliner Haulage and Other Items | - | - | 7.2 | 7.5 |
| | 238.7 | 210.6 | 176.3 | 153.5 |

Table 6.7. Freight Business - Commodity Analysis 1963, 1968, 1974 and 1980

(Source : BRB internal records)

major cause of the overall reduction in freight tonnes carried. If one includes Freightliner traffic haulage, other commodities have remained, in total, fairly constant.

For strategic (discussed later) and market requirements reasons, there has been a marked switch in the relative proportions of Trainload and Wagonload traffic in recent years. The trends since 1968 are given in Table 6.8. There has also been the development of 'private-owners' wagons with a marked trend towards this type of transit, which requires a long-term commitment on the part of the BRB and customers alike.

| | Percentage in Year | | |
|---|---|---|---|
| | 1968 | 1974 | 1980 |
| Trainload Tonnes | 31 | 75 | 88 |
| Wagonload Tonnes | 69 | 25 | 12 |
| Total Tonnes | 100 | 100 | 100 |

Table 6.8. Freight Business - Percentage Distribution of Freight Tonnes Between Trainload and Wagonload 1968, 1974 and 1980

(Source : BRB internal records)

The strategic aspect of the switch from Wagonload into Trainload has been accompanied, since 1971, by the development of 'Speedlink' which is a faster Wagonload service, using large high speed wagons, serving large conurbations with limited intermediate marshalling. As will be seen in Chapter 11, the BRB intended, by about 1985, to eliminate the old Wagonload network and develop the Speedlink system to cater for the conveyance of general merchandise, including a large part of that traffic now carried under traditional Wagonload conditions. The Speedlink tonnes from 1977 to 1980 and the percentage relationships with the Wagonload Sector tonnes are given in Table 6.9. Speedlink tonnes figures relating to earlier years could not be obtained to one decimal place.

| | Speedlink Carryings | |
|---|---|---|
| | Tonnes Carried | Percentage of Total Wagonload Tonnes |
| | Millions | % |
| 1977 | 1.9 | 5.8 |
| 1978 | 2.1 | 8.1 |
| 1979 | 2.3 | 9.2 |
| 1980 | 2.7 | 15.0 |

Table 6.9. Freight Business - Speedlink Carryings 1977 to 1980

(Source : BRB internal records)

Turning to the Parcels Business, this has also undergone considerable change since 1963. This change is portrayed in Table 6.10, where a distinct reduction in parcels tonnes has been experienced from 1974 to 1980. Similar figures in respect of 1963 and 1968 are not available but it is clear from an examination of the receipts figures that there was a similar trend in the earlier years. This is indicated by adjusting these figures for inflation, using the United Kingdom Retail Price Index.

| | Year | | | |
|---|---|---|---|---|
| | 1963 | 1968 | 1974 | 1980 |
| Parcels Tonnes (000's) | | | | |
| Postal Parcels & Letter Mails | N/A | N/A | 810 | 420 |
| Other Parcels | N/A | N/A | 1,020 | 760 |
| | N/A | N/A | 1,830 | 1,180 |
| Parcels Loaded Train Miles (000's) | 16,427 | 13,854 | 12,677 | 10,844 |
| INDEX | (100) | (84) | (77) | (66) |
| Receipts at Actual Prices (£m) | | | | |
| Postal Parcels & Letter Mails | 21.2 | 21.1 | 29.2 | 49.8 |
| Other Parcels | 36.3 | 37.0 | 46.1 | 91.4 |
| | 57.5 | 58.1 | 75.3 | 141.2 |
| Receipts in 1980 Prices | 280.5 | 234.8 | 183.0 | 141.2 |

N/A = Not Available

Table 6.10. Parcels Business - Carryings, Train Miles and Receipts 1963, 1968, 1974 and 1980

(Source : BRB internal records)

The reduction in Parcels Train Miles has also been significant (34%) but this comparison is rather misleading. A similar situation obtained in respect of non-passenger coaching vehicles (which are mainly used for carriage of parcels) which were reduced from 12,482 to 4,026, i.e. by 68%, between 1963 and 1980 (see Table 6.1.) Both are misleading, however, because a large number of parcels are carried in passenger coaching vehicles, in the guards' compartments. To understand this point further, it is helpful to appreciate that the Parcels business had been split by the BRB into two distinct sectors for planning and control. These are 'Station to Station' known as 'S to S' and 'Collection and Delivery' known

as 'C & D'.

The S to S sector includes newspapers, Post Office letter mails and parcels and the so-called 'premium' traffics - 'Red Star' (involving nominated Passenger trains) and 'R.P.T' (registered parcels). The essential feature of the S to S traffic is that it does not involve any conveyance by the BRB in road vehicles. All the traffic is collected/delivered by the customers or their agents. Much of this traffic is conveyed in the non-passenger coaching vehicles but a considerable amount is conveyed in the guards' compartments of passenger coaching vehicles.

The C & D sector covers general parcels traffic under contractual arrangements (e.g. Mail Order Companies) and scale charges. This traffic has involved conveyance (collection and/or delivery) in road vehicles owned or hired by the BRB. Up to 1968, the road vehicles concerned were owned by the BRB but since that date the collection/delivery has been undertaken by National Carriers Ltd. (see Section 6.2). It will be observed later (Section 6.3.) that the BRB abandoned the C & D sector on 1 July, 1981.

The distribution of traffic between S to S and C & D in the years 1968, 1974 and 1980 was as shown in Table 6.11. It will be observed that there has been a significant relative decline in C & D receipts with a greater share of the total being in respect of Newspapers, Red Star and RPT traffic within the S to S sector.

| | Percentage Receipts in Year | | |
|---|---|---|---|
| | 1968 | 1974 | 1980 |
| | % | % | % |
| Station to Station | | | |
| Newspapers | 11.7 | 13.8 | 17.5 |
| Red Star and R.P.T. | 5.8 | 10.8 | 20.2 |
| Post Office letter mail and parcels | 37.2 | 37.5 | 35.3 |
| Other | 9.5 | 7.0 | 4.3 |
| Total | 64.2 | 69.1 | 77.3 |
| Collected and Delivered | 35.8 | 30.9 | 22.7 |
| Total | 100.0 | 100.0 | 100.0 |

Table 6.11. Parcels Business - Percentage Distribution of Receipts 1968, 1974 and 1980

(Source : BRB internal records)

In summary, the three businesses comprising the Railways business and their largely jointly used assets have undergone considerable changes during the years between 1963 and 1980. The full impact of these changes will be more readily understood once the financial history has been portrayed in Section 6.2. The significance of the changes on past and future strategic events will be dealt with in Chapter 11.

### 6.1.2. British Rail Engineering Ltd.

British Rail Engineering Ltd. (BREL) is a mechanical and electrical engineering company providing a rolling stock repairs facility to the Railways business in respect of major repairs and the supply of materials for day-to-day maintenance

at regional maintenance depots. This company also manufactures most of the rolling stock for the Railways business. However, BREL also trades with third parties in both the maintenance and manufacturing fields, but this is a minor part of the business transacted. The repair and manufacturing facilities are located at installations known as 'main works', of which there are currently thirteen which employed a total staff of 36,567 at the end of 1980. This makes BREL one of the largest engineering concerns in the United Kingdom. Part of the rolling stock marketing facility is undertaken by B.R.E.-Metro Limited, which is a joint company owned by BREL and Metro Cammell Laird Limited, who manufacture urban rapid transit vehicles.

The size of the Railways business rolling stock heavy repairs and building programme was such that the British Railways Board transferred the 'main works' to this separate company in 1969. Part of the purpose of this was to enable the company to develop its distinctive competence to undertake work for third party companies and to facilitate the manufacture of rolling stock for export. Prior to January 1970, the Railways workshops were specifically prohibited by the Government from competing with the private sector for the construction of rolling stock in the United Kingdom or for export.

At the end of 1963, 'BREL' employed 61,899 staff. This was reduced to 39,215 at the end of 1968, 33,746 at the end of 1974 and 36,567 at the end of 1980. During that time the

number of main works was reduced from 28 to 13. These reductions were very significant but, nevertheless not as striking as the reductions in the number of locomotives, coaching vehicles and freight vehicles recorded in Table 6.1. This disparity has been largely due to the increased size and complexity of the assets currently repaired compared with the situation in earlier years. Output statistics are not provided here because they would be misleading due to changes in the assets being repaired/constructed and the types of repairs undertaken. The financial arrangements for BREL are such that the Railways business is charged with the full cost of work done and materials supplied. Only the profit on external sales is left in the BREL books of account and reserves.

### 6.1.3. British Transport Hotels Ltd. (BTH)

British Transport Hotels Ltd. was created in 1963, inheriting the Hotels and Catering business of the BRB. It is a hotel and catering company owning hotels in many main centres and providing Railway station catering and catering on board most Inter-city trains. It is one of the largest hotel and catering companies in the United Kingdom.

The station and train catering is undertaken on an agency basis for the Railways business and the resulting profit or loss is brought to account as part of the Railways business trading account. The profit or loss on hotel trading is retained within BTH accounts. This difference in treatment recognises the fact

that the BRB regards the station and train catering activities as being part of the rail passenger transport package. Thus, the Railways business management is in the initiative in much of the decision-making, with BTH acting as agent for provision of the service.

Some of the key physical statistics in respect of BTH and its forebears are given in Table 6.12.

| | Position as at | | | |
|---|---|---|---|---|
| | 1/1/63 | 31/12/68 | 31/12/74 | 31/12/80 |
| | Nos | Nos | Nos | Nos |
| Hotels | 34 | 34 | 31 | 29 |
| Stations at Which There Are Catering Units | 242 | 197 | 176 | 209 |
| Staff | 15,828 | 12,573 | 11,269 | 10,401 |

Table 6.12. British Transport Hotels Ltd. (and Forebears) - Physical Resources at Selected Dates

(Source : BRB annual reports and accounts)

### 6.1.4. British Railways Property Board

The British Railways Property Board was formed in 1969 to administer the letting of sites and buildings within areas being used by the BRB (known as operational property) and the letting and sale of sites and buildings not being used (non-operational). The 'Property Board' as it is called is among the five largest property owners in the United Kingdom and undertakes many large development projects, usually near

the stations of large towns and often with private developers. Prior to the creation of this separate business, the property management activities were handled by the Railways business. At the end of 1980, the Property Board portfolio consisted of approximately 140,000 individual properties, licences, easements and wayleaves. The book value of the non-operational property portfolio at the end of 1980 was £172.5m, the last revaluation having taken place in 1978. Staff numbers employed by the Property Board were 1,004 and 1,147 at the end of 1974 and 1980, respectively.

The letting of operational property is regarded as another adjunct of the Railways business and the profit thereon is credited to the Railways business trading account. The profit on the non-operational account is retained within the accounts of the Property Board. This profit results from the letting of property declared non-operational and the development and sale of sites, all of which would have been declared non-operational sometime beforehand. When property is declared non-operational its assessed value is credited to the Railways business cash flow account and the Property Board capital profits thus represent profits in excess of these transfer values. Much of the effort of the Property Board is directed towards the development of sites in association with other organisations.

6.1.5. Sealink (U.K.) Ltd.

Sealink (U.K.) Ltd. is a coastal shipping company formed on 1 January 1979 which was previously known as the Shipping and

International Services Division of the BRB. It provides passenger and freight services to Northern Ireland, Eire, parts of the Continent and some offshore islands, including the Channel Islands and the Isle of Wight. In company with the French Railways, Zeeland Steamship Company and Belgian Marine Transport Authority, the Company operates services under the brand name of 'Sealink' carrying passengers and cars on ten routes to Europe. Together they represent the largest shipping fleet of its kind in Europe operating, at the end of 1980, 74 vessels on 28 routes.

From 1963 to 1968, the shipping services were run by the management of the Railways business. However, in 1968, the separate Division was created and it became operational in 1969. Associated with Sealink (U.K.) Ltd, which has its own set of accounts, is the harbours account which is maintained separately although mainly run by the Company. This is done to establish the economics of the harbours activity which is credited with harbour dues and fees for handling services.

The physical facts trends of Sealink (U.K.) Ltd. and its forebears are shown in Table 6.13. These figures show that the volume of 'Sealink' traffic has not changed much since 1963 except for the advent of motor vehicle traffic. This has resulted from the purchase/charter of relatively large 'roll-on/roll-off' ships by each of the 'Sealink' members.

| | Year | | | |
|---|---|---|---|---|
| | 1963 | 1968 | 1974 | 1980 |
| | m | m | m | m |
| Shipping | | | | |
| Passenger Journeys * | 18.5 | 17.0 | 16.1 | 18.4 |
| Passenger Vehicles * | 0.8 | 1.1 | 1.6 | 2.1 |
| Freight Tonnes in Rail Vehicles * | 1.8 | 2.0 | 2.7 | 2.4 |
| Road Haulage Vehicles * | - | 0.1 | 0.3 | 0.6 |
| Import/Export Vehicles * | - | 0.1 | 0.1 | 0.2 |
| | 1/1/63 | 31/12/68 | 31/12/74 | 31/12/80 |
| | Nos | Nos | Nos | Nos |
| Ships Owned | 92 | 79 | 45 | 30 |
| Ships Jointly Owned | - | - | 3 | 3 |
| Ships Leased | - | - | 16 | 17 |
| Staff (Ships and Harbours) | 10,330 | 8,631 | 10,094 | 10,491 |

* These figures include the total carryings of the services operated jointly by the BRB and the other 'Sealink' organisations as applicable in the years provided. However, the receipts and profits recorded in Section 6.2. represent the proportion accruing to Sealink (U.K.) Ltd. and its forebears.

Table 6.13. Sealink (U.K.) Ltd. and Forebears - Physical Trends and Resources at Selected Dates

(Source - BRB annual reports and accounts and internal records)

## 6.1.6. British Rail Hovercraft Ltd.

British Rail Hovercraft Ltd. was a relatively small company which owned and operated two large hovercraft until 25 October 1981 when it was merged with Hoverlloyd Ltd. (see section 6.3.) It was a pioneer organisation having been involved with commercial hovercraft since 1966 using smaller craft between Southampton and the Isle of Wight. More recently, using two larger craft, it has operated across the English Channel, working with a S.N.C.F. (French Railways) craft under the brand name of 'Seaspeed'.

The physical statistics for 1968, 1974 and 1980 are provided in Table 6.14, where it can be seen that there has been a considerable increase in carryings using the larger craft. This has been coupled with an improvement in reliability, particularly in 1980.

| | Year | | |
|---|---|---|---|
| | 1968 | 1974 | 1980 |
| | 000's | 000's | 000's |
| Passenger Journeys | 298 | 807 | 1,355 |
| Motor Vehicles | 3 | 83 | 163 |
| | 31/12/68 | 31/12/74 | 31/12/80 |
| Craft | 5 | 4 | 2 |
| Staff | * | 321 | 503 |

* included with Railways business manpower figures

Table 6.14. British Rail Hovercraft Ltd. - Physical Trends and Resources at Selected Dates

(Source : BRB annual reports and accounts)

6.1.7. Freightliners Ltd.

The Freight business of the Railways business commenced development of a Freightliner network in 1966, seeing it as a means of improving its share of the general merchandise traffic in a profitable way. In 1968, a new company was formed, Freightliners Ltd. which took over the related terminals, containers and road vehicles. In January 1969, 51% of the shares were vested in the National Freight Corporation, the balance being held by the BRB. However, in 1978, the company was transferred back into the ownership of the British Railways Board. (Transport Act, 1978).

During 1980, Freightliners Ltd. forwarded 866,000 containers (equated 20 feet units) and, at the end of 1980 owned 38 terminals, 6,798 containers and 547 collection and delivery road vehicles. It also employed 2,432 staff. The company keeps separate books of account and pays the Railways business for rail trunk haulage of its containers. This forms part of the receipts, tonnes and net tonne miles of the Railways Freight business.

It can be seen from the foregoing that the BRB is a complex business containing a number of separate businesses, all of which have a strong relationship with the main activity - the Railways business. To consider the development of these businesses more fully, it is necessary to examine their financial history and, in that context, consider the impact

of legislation and other significant events. This analysis follows in Section 6.2.

## 6.2. Financial History

In this section, it is intended to explain the main features of the financial history of the BRB from 1963 to 1974 and then provide considerably more information in respect of the years 1975 to 1980. This difference in treatment is considered appropriate since, up to 1974, it is only necessary to provide an historical perspective to the strategic considerations discussed in Chapter 11. From 1975, however, it is considered necessary to tabulate the actual results in a way that will facilitate the success assessment undertaken in Chapter 16.

It is convenient to split this section into three sub-sections dealing, respectively, with the years 1963 to 1968, 1969 to 1974 and then 1975 to 1980. Apart from the earlier reference to the special requirements in respect of 1975 to 1980, this is because of the impact of legislation which created a different financial environment in each of these periods.

### 6.2.1. Financial History 1963 to 1968

When the British Railways Board was established on 1 January 1963, under the Transport Act, 1962, its inherited financial situation was already rather desperate, largely because of growing road competition. Substantial deficits had been recorded by the British Transport Commission in respect of those businesses transferred to the BRB (amounting to £104m before interest in 1962) and it was the intention that the

BRB would complete and implement a report entitled 'The Reshaping of the British Railways' which was designed to reduce substantially the deficits that would otherwise occur.

The 'Reshaping Report', as it was called, was published on 27 March 1963 and the chairman, Dr R. Beeching, (who had been appointed by the British Transport Commission and was largely responsible for its underlying strategic content) set out to implement its proposals. Not surprisingly, the report also became known as the 'Beeching Report' and the subsequent period of change as the 'Beeching Era'.

In the words of Dr Beeching (Annual Report and Accounts 1963) the Reshaping Report set out to direct its proposals "towards the selection of a pattern of traffics, the development of a route system, and of modes of operation which will take full advantage of the merits of a rail system and enable it to be competitive." This meant dispensing with large parts of the traffic and lines (mostly Passenger but including a considerable amount of Freight) where the carryings were too light to justify the extent of the deficits incurred and where the traffic concerned passed predominantly by road with associated spare road capacity. This was the start of a 'do what you can do best approach' which has been fundamental to all subsequent strategic effort. It included the first concerted moves towards the development of the Freight 'trainload' activity which later became so important in strategic terms.

What actually happened in practice was that the implementation

of the Reshaping Report prevented what would otherwise have been a very substantial increase in the deficits of the years 1963 to 1968. The 1963 deficit was not eliminated and, in fact, grew slightly (in actual price levels) by 1968. This situation occurred largely because the net effect of the savings under the strategy was offset by expenditure price increases, mostly in respect of pay. The changes in resources were recorded in Table 6.1. and it will be observed that there were very substantial reductions in almost every item listed. The overall financial results from 1963 to 1968 are recorded in Table 6.15. It can be seen that the results did not improve overall and, consequently, deficit grants were received from Government to cancel the losses and prevent any growth in the interest charge which would have arisen if the losses had been met by borrowings.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
| | £m | £m | £m | £m | £m | £m |
| Profit/(Loss) of each activity * | | | | | | |
| Railways | (81.6) | (67.5) | (73.1) | (71.6) | (90.4) | (83.5) |
| Ships | 4.7 | 5.1 | 4.9 | 3.7 | 4.7 | 4.6 |
| Harbours | 0.2 | 0.2 | 0.1 | (0.1) | 0.3 | 0.1 |
| Hotels | 0.9 | 1.2 | 0.9 | 0.7 | 0.8 | 0.8 |
| Non-operational property | 2.3 | 2.3 | 2.4 | 2.2 | 2.4 | 2.5 |
| Hovercraft | — | — | — | (0.1) | (0.1) | (0.2) |
| | (73.5) | (58.7) | (64.8) | (65.2) | (82.3) | (75.7) |
| Other expenditure | 2.4 | 4.0 | 6.8 | 5.4 | 4.4 | 4.5 |
| | (75.9) | (62.7) | (71.6) | (70.6) | (86.7) | (80.2) |
| Other income | 0.1 | 0.2 | 0.1 | 0.1 | 0.2 | 0.1 |
| | (75.8) | (62.5) | (71.5) | (70.5) | (86.5) | (80.1) |
| Interest | 58.1 | 58.4 | 60.9 | 64.2 | 66.5 | 67.3 |
| Profit/(Loss) | (133.9) | (120.9) | (132.4) | (134.7) | (153.0) | (147.4) |

* This is generally the result of each Business, all differences being negligible in this context. The Railways activity includes the surplus on the letting of operational property and on station/train catering.

Table 6.15. BRB Consolidated Profit and Loss Account 1963 to 1968

(Source : BRB annual reports and accounts)

To understand this situation further, it is necessary to consider the results of the main business, i.e. the Railways business, in more detail. The results of that business are portrayed in Table 6.16, where the BRB's assessment (unpublished) of the Railways business share of the total interest figures have been added to the published figures to make them more complete. These interest figures are based on

cash flow data and are, therefore, quite reasonable.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
| | £m | £m | £m | £m | £m | £m |
| Receipts | | | | | | |
| Passenger | 161.8 | 167.2 | 173.0 | 179.4 | 179.7 | 185.1 |
| Freight/Parcels | 292.8 | 291.6 | 283.9 | 275.3 | 250.3 | 262.4 |
| Miscellaneous | 8.5 | 9.5 | 9.3 | 9.1 | 8.7 | 9.0 |
| | 463.1 | 468.3 | 466.2 | 463.8 | 438.7 | 456.5 |
| Working expenses | 550.2 | 541.6 | 545.7 | 542.1 | 536.1 | 547.1 |
| | (87.1) | (73.3) | (79.5) | (78.3) | (97.4) | (90.6) |
| Ancillary income | 5.6 | 5.8 | 6.4 | 6.7 | 7.0 | 7.1 |
| Profit/(Loss) before interest | (81.5) | (67.5) | (73.1) | (71.6) | (90.4) | (83.5) |
| Interest | 49.0 | 49.0 | 52.0 | 55.0 | 57.0 | 58.0 |
| Profit/(Loss) after interest | (130.5) | (116.5) | (125.1) | (126.6) | (147.4) | (141.5) |

Table 6.16. Railways Business Profit and Loss Account 1963 to 1968

(Source : BRB annual reports and accounts and internal records)

In brief, what occurred during the years 1963 to 1968 was that the 9% reduction in Passenger Miles (see Table 6.2.) which was related mainly to the impact of the Reshaping Report was offset by price increases producing an increase in Passenger receipts of £23.3m by 1968. Freight and Parcels receipts declined, however, by £30.4m in total, again largely as a result of the line closures and service reductions emanating from the Reshaping Report. The Freight reduction was matched by a 7% drop in net tonne miles, as described in Table 6.2. The substantial run-down in resources (see Table 6.1.) for each

of these businesses did not, however, produce lower net expenditure because pay and other price increases in costs were substantially in excess of the increases in receipts prices. The main consolation to the BRB in this situation was the fact that it would have been a good deal worse had it not been for the substantial reduction in resources which might otherwise have attracted equally high price increases, causing a substantial deterioration in the financial position.

During the period 1963 to 1968, the level of capital investment in each of the BRB businesses was as depicted in Table 6.17. It will be observed that there was a considerable increase between 1963 and 1965 with reductions down to the 1963 level by 1967 and a further reduction in 1968.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
| | £m | £m | £m | £m | £m | £m |
| Activity * | | | | | | |
| Railways | 91.0 | 100.8 | 114.2 | 102.8 | 86.0 | 79.0 |
| Ships/Harbours | 2.0 | 3.9 | 3.8 | 1.7 | 8.1 | 4.5 |
| Hotels | 0.9 | 0.8 | 0.8 | 1.2 | 0.9 | 1.3 |
| Non-operational property | 0.1 | 0.2 | - | - | - | - |
| Hovercraft | - | - | - | - | 0.4 | 2.4 |
| Interest Charged to Capital | 1.5 | 2.4 | 2.4 | 0.8 | - | - |
| | 95.5 | 108.1 | 121.2 | 106.5 | 95.4 | 87.2 |

* This is generally the expenditure of each Business, all differences being negligible in this context. Investment in Station/Train Catering and 'Main Works' is contained within the Railways business figures.

Table 6.17. BRB Capital Investment 1963 to 1968

(Source : BRB annual reports and accounts)

However, these figures include inflation and, in order to assess the approximate level of volume changes, the Railways business and total figures have been re-assessed to average 1968 price levels (using the Government's Retail Price Index) as depicted in Table 6.18.

| | Investment (£m) | |
|---|---|---|
| | Railways Business | Total |
| 1963 | 109.8 | 115.3 |
| 1964 | 117.9 | 126.4 |
| 1965 | 127.4 | 135.2 |
| 1966 | 110.3 | 114.3 |
| 1967 | 90.1 | 100.0 |
| 1968 | 79.0 | 87.2 |

Table 6.18. BRB Capital Investment in 1968 Price Levels, 1963 to 1968

(Source : BRB annual reports and accounts)

It can be seen that, in volume terms, the investment levels dropped considerably in 1966 and again in 1967 and 1968. Thus, by 1968 the volume of investment and that portion relating to the Railways business had fallen by 24.4% and 29.1%, respectively.

The realisation that the hoped for major reductions in losses had not been and probably could not be achieved even after such a traumatic reduction in services and resources led to the Government and the BRB taking a fresh view of the situation. This included a review of the principle of deficit financing.

6.2.2. Financial History 1968 to 1974

This review led in part to the Transport Act, 1968, which came into force on 1 January 1969. The Act contained many provisions which were not related to the BRB but those that were are summarised below:-

Transport Act, 1968, - Main Provisions Relating to the BRB

(a) A large capital reconstruction designed to reduce depreciation and interest charges. This involved writing down the value of assets and, together with an increase in provisions, this had the effect of reducing the value of Government borrowings by £887m.

(b) The calculation of, and 'grant aid' for, the losses on selected Passenger services determined to be socially necessary. These grants to be paid by Government and the newly created Passenger Transport Executives (within the metropolitan counties), as appropriate.

(c) The elimination of general deficit financing.

(d) The transfer of the loss-making 'sundries' portion of the Railways Freight business to the newly formed National Freight Corporation. The sundries business was the 'large parcels' sector (56 lb. to 3 tons per consignment) which usually involved collection and delivery by road vehicle.

(e) The creation of B.R.E.L.

(f) The creation of Freightliners Limited to take over and develop the small freightliner activity started in 1966.

(g) Payment of a grant to cover the ownership and maintenance of surplus track and signalling capacity for a maximum period of 5 years and a maximum total payment of £50m.

The most important feature of these provisions was the fact that they gave recognition to the concept of a Passenger 'social railway' which could not provide certain Passenger services without financial support from Central Government or the Passenger Transport Executives. The total deficit grant received under these arrangements in 1969 was £61.1m. After receipt of the grants mentioned above, the overall objective provided in the 1968 Act required the BRB to:-

(i) 'Secure that the combined revenues of the authority and their subsidiaries taken together are not less than sufficient to meet their combined charges properly chargeable to revenue account taking one year with another.'

(ii) 'secure that their subsidiaries charge to revenue account in every year all charges which are proper to be made to revenue account including, in particular, proper provision for the depreciation or renewal of assets.'

The emerging financial results were in accordance with these Act provisions (but after charging depreciation only on an historic basis), for the first three years of its operation. Later results indicated major financial difficulties. The overall situation is summarised in Table 6.19.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
| | £m | £m | £m | £m | £m | £m |
| Profit/(Loss) of each activity * | | | | | | |
| Railways | 48.5 | 47.4 | 26.2 | 17.8 | (5.1) | (96.9) |
| Ships | 4.5 | 3.2 | 2.0 | 3.3 | 2.6 | (1.8) |
| Harbours | 0.3 | (0.1) | (0.5) | 0.1 | 0.2 | - |
| Hotels | 0.9 | 1.2 | 1.2 | 1.4 | 1.2 | 0.7 |
| Non-operational property | 2.7 | 3.1 | 4.1 | 4.9 | 5.5 | 5.3 |
| Hovercraft | (0.3) | (0.4) | (0.3) | (0.2) | 0.1 | (0.5) |
| B.R.E.L. | 0.1 | 0.1 | 0.2 | 0.4 | 0.4 | 0.6 |
| Freightliners (share) | (1.1) | (0.4) | - | (0.2) | 0.5 | - |
| | 55.6 | 54.1 | 32.9 | 27.5 | 5.4 | (92.6) |
| Ancillary income | 0.6 | 0.4 | 0.5 | 0.6 | 3.9 | 10.2 |
| Corporate expenses | - | 2.8 | 3.2 | 3.2 | 3.6 | 3.5 |
| Profit/(Loss) before interest | 56.2 | 51.7 | 30.2 | 24.9 | 5.7 | (85.9) |
| Interest | 41.5 | 42.2 | 45.6 | 51.1 | 57.3 | 71.9 |
| Profit/(Loss) after interest | 14.7 | 9.5 | (15.4) | (26.2) | (51.6) | (157.8) |
| Passenger Grant included in Railways figures | 61.2 | 61.7 | 63.1 | 68.2 | 91.4 | 154.3 |

* This is generally the result of each Business, all differences being negligible, in this context. The Railways activity includes the surplus on the letting of operational property and on station/train catering.

Table 6.19. BRB Consolidated Profit and Loss Account 1969 to 1974

(Source : BRB annual reports and accounts)

It will be noted that a loss of £26.2m was sustained in 1972 and this grew to £157.8m by 1974. To understand this situation, it is again necessary to examine the results of the Railways business, including the BRB's assessed share of the

total interest charge applicable to that business. The appropriate figures are given in Table 6.20.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
| | £m | £m | £m | £m | £m | £m |
| Receipts | | | | | | |
| Passenger - fares | 205.4 | 227.8 | 261.0 | 274.1 | 297.3 | 328.8 |
| - grant | 61.2 | 61.7 | 63.1 | 68.2 | 91.4 | 154.3 |
| Freight | 195.5 | 208.2 | 193.9 | 183.3 | 198.5 | 205.5 |
| Parcels | 60.0 | 62.4 | 65.0 | 68.6 | 73.8 | 75.3 |
| Miscellaneous | 10.6 | 11.4 | 12.2 | 38.2 | 12.1 | 11.9 |
| | 532.7 | 571.5 | 595.2 | 632.4 | 673.1 | 775.8 |
| Working expenses | 491.6 | 532.0 | 578.0 | 625.1 | 688.6 | 882.8 |
| | 41.1 | 39.5 | 17.2 | 7.3 | (15.5) | (107.0) |
| Ancillary income | 7.5 | 7.9 | 9.0 | 10.5 | 10.4 | 10.1 |
| Profit/(Loss) before interest | 48.6 | 47.4 | 26.2 | 17.8 | (5.1) | (96.9) |
| Interest | 36.0 | 36.0 | 38.0 | 46.0 | 51.0 | 65.0 |
| Profit/(Loss) after interest | 12.6 | 11.4 | (11.8) | (28.2) | (56.1) | (161.9) |

Table 6.20. Railways Business Profit and Loss Account 1969 to 1974

(Source : BRB annual reports and accounts and internal records)

In fact, the difficulties started in 1971. In that year, receipts excluding the Passenger Grant, increased by £22m. It was estimated by the BRB that this resulted from an increase of £55m in respect of the yield from receipts price increases, offset by an estimated decline of £33m due to a reduction in the volume of Freight traffic carried. Working expenses increased, however, by £46m as a result of expenditure price

increases of £59m (mostly pay awards), partly offset by improvements in the volume of expenses of £13m due to resource reductions. The Passenger Grant showed a slight increase only.

There was worse to come in 1972, when the combined Passenger, Freight and Parcels receipts increased by only £5m excluding the Passenger Grant. This resulted from an estimated increase of £36m in respect of the yield from price increases, offset by an estimated decline of £31m due to a decrease in the volume of receipts (mostly Freight). Working expenses increased by £47m as a result of expenditure price increases of £59m (mostly pay awards), again partly offset by improvements of £12m due to economies in the volume of expenses i.e. resource reductions. There was one bright, though temporary, feature: this was the receipt of a special Government grant for holding down prices at their request. This amounted to £27m and explains the large increase under Receipts - miscellaneous. The Passenger Grant increased by £5m mainly reflecting the expenditure price increases. The total interest charge was now beginning to rise sharply and the Railways business share in particular. This reflected the fact that the new stream of losses had to be borrowed from Government as well as the usual borrowing to finance investment in excess of the depreciation provisions.

However, the Government also recognised the severe cash flow problem which was being created by the remaining BRB loss of £26.2m by making a 'Special Grant' of £32.0m. This was recorded on the BRB balance sheet as an interest free capital liability since the Secretary of State reserved the right to

require the BRB to refund all or part of it.

In 1973, the Railways business loss, after charging a share of the interest figure, amounted to £56.1m compared with £28.2m in 1972 and £11.8m in 1971. In fact, the 1973 results were in many ways comparable with the 1972 figures because the 1972 loss would have been £55m without the 'once-off' pricing grant of £27m. Receipts price increases produced £26m in 1973 which was hopelessly inadequate to deal with the expenditure price increases of £51m. However, receipts volume improved by £18m but this was largely offset by a working expenses volume increase of £13m. Much of the overall deterioration was covered by the Passenger Grant which increased by £23m, so the net difference boiled down in the main to the value of the non-receipt of the pricing grant for a second year.

Once again, the Government helped to alleviate the attendant cash flow problems by providing a Special Grant of £72m. In this instance £20.4m was regarded as a capital liability, adding to the £32m received in 1972. The balance of £51.6m was regarded as a deficit grant and was credited to the profit and loss appropriation account, thus offsetting the Group loss for the year.

The year 1974 was worse and might be described as a 'watershed'. The loss, after interest increased from £51.6m to £157.8m for the BRB and from £56.1m to £161.9m for the Railways business. Receipts price increases in the Railways business produced approximately £56m in 1974 which bore no comparison with the

expenditure price increases which totalled £184m. These latter increases reflected the general level of inflation (including oil prices) but mainly consisted of pay awards including a September 'comparability' award. This was coupled with further receipts volume losses of £16m and working expenses volume increases of £10m. With an economic recession under way, the receipts losses were recorded on the Freight and Parcels side, but the Passenger business improved by £5m. Industrial disputes and the 'three-day week' caused a drop of £14m and the remaining £7m reflected the general economic recession. The Passenger Grant increased from £91.4m to £154.3m but, with the remaining Railways business loss being £161.9m and the overall loss being £157.8m, both figures allowing for a further increase in interest, it was necessary for further Government action to be taken.

That action stemmed mainly from the provisions of the Railways Act, 1974, which is discussed in the next Sub-section. More immediately, however, the Government supplied a further deficit grant of £157.8m in 1974 to enable the BRB to maintain a tenable financial position during the latter part of that year. The deficit grant was supplemented by a further £57.2m to assist the cash flow problems, making the Special Grant £215m in all. This part of the grant was again recorded as a capital liability making a total over the three years of £109.6m.

It is clear that the deterioration in the financial situation which had developed during 1973 and, more severely, in 1974 was mainly the result of expenditure price increases (mostly pay and fuel oil) vastly outstripping receipts price increases.

Changes in the volume of receipts and expenditure were material in themselves but of relatively less significance.

In respect of capital investment during the period 1969 to 1974, the position was as depicted in Table 6.21.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
| | £m | £m | £m | £m | £m | £m |
| Activity * | | | | | | |
| Railways | 62.1 | 78.0 | 64.9 | 89.5 | 90.2 | 124.5 |
| Ships/Harbours | 5.2 | 5.9 | 3.1 | 10.3 | 9.5 | 4.3 |
| Hotels | 1.3 | 1.5 | 2.4 | 1.6 | 1.7 | 1.1 |
| Non-operational Property | - | - | - | - | - | - |
| Hovercraft | - | - | - | 0.1 | - | - |
| | 68.6 | 85.4 | 70.4 | 101.5 | 101.4 | 129.9 |

* This is generally the expenditure of each Business, all differences being negligible in this context. Investment in Station/Train catering and 'main works' is contained within the Railways business figures.

Table 6.21. BRB Capital Investment 1969 to 1974

(Source : BRB annual reports and accounts)

These figures again include inflation and, in order to assess the approximate level of volume changes, the Railways business and BRB total figures have been converted to average 1974 price levels (using the Retail Price Index) as depicted in Table 6.22.

| | Investment (£m) | |
|---|---|---|
| | Railways Business | Total |
| 1969 | 98.0 | 108.2 |
| 1970 | 115.8 | 126.8 |
| 1971 | 88.1 | 95.5 |
| 1972 | 113.3 | 128.4 |
| 1973 | 104.6 | 117.6 |
| 1974 | 124.5 | 129.9 |

Table 6.22. BRB Capital Investment, in 1974 Price Levels, 1969 to 1974

(Source : BRB annual reports and accounts)

It is important to note that the BRB had decided to lease a number of assets during the period 1971 to 1974 and some investment was funded by the PTE's. These factors apart, the underlying trend was a volume increase on the 1969 position, but the total investment in that year was £47.0m less than in 1968 (in 1974 price levels). Thus, in each of the years 1969 to 1974, the investment expenditure was lower than that incurred in 1968, which was itself the lowest level in any year since the creation of the BRB.

### 6.2.3. Financial History 1975 to 1980

The Railways Act, 1974, the provisions of which took effect on 1 January 1975, created a considerably different financial environment. The main provisions were:-

(a) The establishment of a 'public service obligation' (P.S.O.) which enabled the Government to give grants to the Passenger business as a whole (on top of that already provided by the Passenger Transport Executives). This was on the understanding that the BRB would 'operate their

railway passenger system so as to provide a service which is comparable generally with that provided by the Board at present'.

(b) The requirement that the Non-passenger business (i.e. the Freight and Parcels businesses plus ancillary income attributable to those businesses) should cover its direct working expenses and its share of indirect expenses (track and signalling and administration) calculated on an avoidable basis. This avoidable cost calculation was based on the assumption that the Railways business existed primarily for the Passenger business which would, therefore, take the balance of the costs.

(c) A further capital reconstruction and shorter depreciation lives for wagons, coupled with the reclassification of most track and signalling investment (renewals) as 'revenue investment' (to be charged therefore to working expenses) rather than capital investment, as hitherto. This last item was seen as a step towards inflation accounting.

(d) Provision for grants to Freight customers to assist with the establishment of new private sidings.

(e) Grant aid arrangements in respect of pension fund deficiencies.

The break-even one year with another requirement, contained within the Transport Act, 1968, remained in force but the final profit and loss situation of the BRB was to be evaluated after allowing for the above provisions.

The P.S.O. arrangement was a very significant step, in that it was a categorical recognition of an inevitable and necessary requirement to provide grants to offset what would otherwise be losses incurred by the Passenger business. Indeed, this concept and its social connotations were taken further in the accounting arrangements whereby the combined Freight and Parcels businesses were charged only with their avoidable costs. The treatment of direct (train working and terminals) working expenses noted above was deemed to be approximately equal to the avoidable costs, making the entire charge on an avoidable basis. The creation of the unusual category of 'revenue investment' was also favourable to the BRB in that, under the avoidability rules, approximately 90% of that investment would be charged to the Passenger business each year and thus be recovered in the annual P.S.O. grant.

It is clear that, as a means of providing a financial lifebelt, the Railways Act, 1974, was a very adequate document. Aside from the special treatment of pension fund deficiencies (which are discussed further shortly), the capital reconstruction reduced the debts to the Government by £298.3m, including the writing-off of that part of the 'Special Grants' received in the years 1972 to 1974 which had been treated as capital liabilities. The value of the fixed assets was reduced to compensate and the assets which were no longer regarded as capital were written off, all residual differences being charged to reserves.

Under these new accounting arrangements, the results for the years 1975 to 1980 were as portrayed in Table 6.23. Despite

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
| | £m | £m | £m | £m | £m | £m |
| Profit/(Loss) of each activity * | | | | | | |
| Railways | (42.3) | 0.1 | 44.8 | 37.8 | 34.2 | (28.6) |
| Ships | (5.2) | (2.2) | 6.5 | 9.1 | 9.6 | 2.5 |
| Harbours | (0.4) | 1.0 | 2.7 | 3.1 | 4.0 | 3.9 |
| Hotels | 0.8 | 0.7 | 1.5 | 1.0 | 0.3 | (0.3) |
| Non-operational property | 5.5 | 6.3 | 7.0 | 7.0 | 7.3 | 8.4 |
| Hovercraft | (0.2) | - | (0.6) | (2.2) | (0.8) | (2.9) |
| B.R.E.L. | 0.5 | 0.4 | 0.6 | 0.1 | 1.0 | 0.9 |
| Freightliners (share) | 0.8 | 0.3 | 0.3 | 0.8 | 2.0 | 1.4 |
| | (42.1) | 6.6 | 62.8 | 56.7 | 57.6 | (14.7) |
| Ancillary income | 17.9 | 10.8 | 9.7 | 7.4 | 8.2 | 11.2 |
| Corporate expenses | 4.1 | 3.7 | 4.1 | 5.8 | 3.5 | 4.5 |
| Profit/(Loss) before interest | (28.3) | 13.7 | 68.4 | 58.3 | 62.3 | (8.0) |
| Interest and exchange losses/(gains) | 32.5 | 43.4 | 38.5 | 51.6 | 60.8 | 68.7 |
| Taxation | - | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 |
| Profit/(Loss) after interest | (60.8) | (29.9) | 29.7 | 6.5 | 1.4 | (76.9) |
| Special grant for non-passenger deficit | 66.3 | 35.2 | 5.5 | - | - | - |
| Grant adjustments | - | - | (8.2) | (0.1) | - | - |
| Extraordinary items | - | - | - | - | 1.8 | - |
| Adjusted profit/(loss) after interest | 5.5 | 5.3 | 27.0 | 6.4 | (0.4) | (76.9) |

*This is generally the result of each Business, all differences being negligible in this context. The Railways activity includes the surplus on the letting of operational property and on station/train catering.

Table 6.23. BRB Group Profit and Loss Accounts 1975 to 1980

(Source : BRB annual reports and accounts)

the PSO grant and the associated avoidable costs arrangement in respect of the Non-passenger business, it can be seen that, in 1975, a loss of £60.8m was incurred (after interest) which was funded by a new 'Special' grant to cover the Railways business Non-passenger loss, leaving a profit relating to the subsidiary businesses of £5.5m. The situation improved in 1976 when the overall loss of £29.9m (after interest) was funded by a similar grant of £35.2m, leaving a profit of £5.3m. It improved again in 1977 and a profit of £29.7m (after interest) was earned. The Special grant arrangement continued and £5.5m was paid. However, during 1977, the BRB established with the Department of Transport that £8.2m had been overpaid in respect of the 1976 Special grant and that amount was repaid. This left an overall profit of £27.0m. In 1978, the profit was reduced to £6.5m (after interest) and to £1.4m in 1979. No further Special grants were received in those years. The situation changed drastically in 1980, when a loss of £76.9m (after interest) was sustained. Again no Special grant was paid and this amount was funded by borrowing from the National Loans Fund.

Throughout the years 1975 to 1980, as in earlier years, the financial results of the BRB have been dominated by those of the Railways business. This is clear from an examination of the trends in Table 6.23, particularly in the knowledge that the bulk of the interest charge and Ancillary Income are related to the Railways business. The results of the other businesses, whilst being important in themselves, are of minor significance when compared with the results of the Railways

business. For this reason, it is intended to devote most of the remainder of this sub-section to an analysis of the Railways business results, explaining the improvement between 1975 and 1977 and the deterioration between 1977 and 1980. Additionally, it is considered useful to compare the 1975 result with that of 1974, albeit that the financial arrangements were somewhat different prior to the new rules relating to the Railways Act, 1974.

The results from 1975 to 1980 are analysed in Appendices 1(a) to 1(c), with data in respect of 1974 added for comparative purposes. In Appendix 1(a), the financial results are recorded in a way which is designed to facilitate the eventual comparison with the Railways business 'corporate' plans. This includes an analysis of the year on year changes (annual and cumulative) split between price changes and volume changes. The latest (May 1981) forecast of the 1981 result is also recorded but that will not be referred to until Section 6.3. Appendix 1(b) records the investment expenditure including the newly created Revenue Investment element. Appendix 1(c) records the trends of the key physical facts, all those relating to the quantity of resources representing year-end situations. Additionally, actual movements in selected macro-economic indicators are given in Appendix 1(d), but these will be referred to mainly in Chapter 16.

In summary form, the financial results given in Appendix 1(a) are as described in Table 6.24. Before examining the trends and causes of change, it is necessary to explain how the

| | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
| | £m | £m | £m | £m | £m | £m | £m |
| Receipts (including Ancillary Income) | | | | | | | |
| Passenger | 331 | 435 | 511 | 600 | 707 | 805 | 962 |
| Freight | 224 | 262 | 328 | 371 | 412 | 464 | 484 |
| Parcels | 76 | 88 | 98 | 110 | 119 | 132 | 142 |
| | 631 | 785 | 937 | 1081 | 1238 | 1401 | 1588 |
| Working Expenses (including Interest) | 947 | 1171 | 1288 | 1420 | 1679 | 1925 | 2302 |
| Profit/(Loss) before Grants | (316) | (386) | (351) | (339) | (441) | (524) | (714) |
| Resulting in:- | | | | | | | |
| PSO Grant (including PTE) | | 324 | 319 | 364 | 434 | 523 | 634 |
| Non-Passenger Grant | | 66 | 35 | (3) | | | |
| Passenger Profit/(Loss) | | 4 | 3 | 22 | (7) | 1 | (32) |
| Non-Passenger Profit/(Loss) | | - | - | - | - | (2) | (48) |
| 1974 (Loss) before Grants | (316) | | | | | | |

Table 6.24. Railways Business - Profit and Loss Results 1974 to 1980

(Source : BRB annual reports and accounts and internal records)

Passenger Profit/(Loss) line of entry arises. It was explained earlier that the P.S.O. grant was designed, fundamentally, to fund the deficit of the entire Passenger business. Whilst this is the case, the rules are somewhat complex and they result in a relatively small profit or loss emerging at the end of each year.

What happens is that each December, the Passenger proportion of the profit and loss budget for the following year is converted into a P.S.O. claim figure, which is equal to the budgeted Passenger loss. This claim includes the service support payments due from the P.T.E's, the balance being payable by Central Government. The actual P.T.E. grant payments are calculated according to the emerging results, but the actual Central Government part of the P.S.O. payment is the claim figure adjusted to take account of certain matters, most of which are largely beyond the Board's control. The nature and extent of these 'allowable factors' is defined in the P.S.O. 'Principles and Procedures' agreed between the BRB and the Department of Transport and includes such items as major industrial disputes, major disasters, Government intervention on prices, changes in the nature of the passenger 'obligation', taxation and N.H.I. changes, significant capital expenditure changes, variations in interest charges, the first three months plus backdating of pay increases in excess of the provision included in the budget, actual materials and services price changes and a varying percentage of the net sum of other changes, reviewed annually. This last item is known within the BRB as the 'taut budgeting' factor.

Naturally, even allowing for these factors, the final result after P.T.E. grants (i.e. the loss before the Central Government Passenger grant) is bound to be different to the adjusted claim level. Any yearly betterment is shared on a percentage basis (the D.Tp. share of the benefit is related to the ratio of the budgeted P.S.O. grant to the budgeted expenditure in that grant) and the Board's share is declared as a profit. Any adverse variance is similarly treated (i.e. the D.Tp. make a contribution) and the Board's share is declared as a loss. This final adjustment is known in the BRB as the 'sweeper', but is recorded on Table 6.24 as the 'Passenger Profit/(Loss)'. It will be observed that, over the years 1975 to 1980 the profits have amounted to £30m and the losses to £39m.

In 1975, the Railways business financial results contained the effect of the new accounting arrangements resulting from the Railways Act, 1974. This feature alone caused working expenses and, consequently, the loss before grants to increase by £13m. This was related to revenue investment and additional pensions charges offset partly by reduced depreciation and interest charges. Receipts price increases produced a net yield (i.e. the gross increase minus customer resistance) of £171m (Passenger £88m, Freight £62m and Parcels £21m) but working expenses price increases amounted to £223m (caused mainly by a 27% pay increase from April 1975 and the residual effect of the 1974 pay increases) producing a net adverse price change of £52m. In fact, as a proportion of the previous year's actual results, this could be regarded as a slight improvement, the receipts

price increases being 27.1% and the working expenses price increases amounting to 23.5%.

The volume of receipts declined by £17m. Within this amount, Passenger receipts improved by £16m, largely as a result of decreased industrial disputes. However, total passenger miles declined from 19,200 million to 18,800 million partly as a result of a small change in mix (i.e. fare categories and sectors) but mainly as a result of resistance to the price increases. Freight receipts declined by £24m and this was matched by reductions in net tonne miles (13,700 million down to 13,000 million) if not tonnes (177 million down to 176 million). Parcels receipts also declined by £9m. However, discounting the effect of the accounting adjustments under the 1974 Act (an increase of £13m), working expenses were reduced by £12m. This was matched by a manpower reduction of 5,000 staff (2.6%).

In 1976, the net financial results (i.e. Profit/(Loss) before Grants) improved on 1975 by £35m, representing a considerable improvement in net terms. Receipts price increases produced £160m consisting of Passenger £75m (23.0%), Freight £68m (26.0%) and Parcels £17m (19.3%) and this almost matched the working expenses price increase of £164m. In percentage terms, the receipts price increases amounted to 20.4% on 1975 and working expenses 14.0%, a real improvement in net terms. The lower working expenses price increases were heavily influenced by the advent of a National pay policy which was to

significantly reduce the levels of pay increases in those years, through its phase 1 (1976) and phase 2 (1977) pronouncements. This pay policy was worked out between the Government and the Trades Union Conference and was contained within Cmnd 6151 'The Attack on Inflation' dated July 1975. Its phase 1 effectively meant pay increases generally of £6 per employee per week (from April 1976) or roundly 8%. Together with the residual effect of the 1974 pay increase, the total pay increase in the year was approximately 15%, quite close to the total price increase in working expenses.

In volume terms, Passenger receipts improved by £1m but passenger miles were reduced from 18,800 million to 17,700 million (5.9%), again mainly as a result of resistance to the price increases. Freight receipts dropped by £2m and this was matched by a reduction in net tonne miles from 13,000 million to 12,800 million (1.5%), whilst tonnes carried remained approximately level at 176 million. Parcels receipts were reduced by a further £7m. Working expenses recorded a volume improvement of £47m. Of this amount, £7m was related to reduced engineering maintenance, £27m to reduced Revenue Investment and the balance was in respect of operating and administration staff economies. This latter improvement was accompanied by a manpower reduction of 7,200 staff (3.8%). This was to become the largest annual manpower reduction during the 1970's.

In 1977, the loss before grants improved by £12m, again representing an improvement in net terms. Receipts price increases produced £62m (12.1%) on the Passenger side, £52m (15.9%) for Freight and £19m (19.4%) for Parcels, making £133m (14.2%) in total. The price increases in working expenses amounted to £130m which represented a relatively lower percentage increase of 10.1%. That price increase was assisted greatly by phase 2 of the national pay policy under which pay rates were increased by only £4 per week per employee in April 1977.

The volume of Passenger receipts improved by £27m (5.3%) in 1977 compared with 1976. This was accompanied by an increase in passenger miles from 17,700 million to 18,200 million (2.8%) although they were still a little depressed by resistance to the 1976 price increases. Freight receipts declined, however, by £9m (2.7%) and the net tonne miles were reduced almost proportionately from 12,800 million to 12,500 million (2.3%). Tonnes carried were reduced from 176 million to 170 million (3.4%). Parcels receipts declined by £7m (7.1%). The volume of working expenses increased by £2m. This included an increase in Revenue Investment of £25m which was partly offset by reduced engineering maintenance and operating/administration economies totalling £23m. These economies were matched by a manpower reduction of 4,500 staff (2.5%).

In 1978, the loss before grants increased by £102m to £441m. In fact, part of this increase(£50m) was somewhat artificial in that it was related to a form of supplementary depreciation

which was agreed with the Department of Transport as a means of reducing the borrowings in respect of capital investment in the Passenger business. Between 1975 and 1977, the capital investment of the Passenger business was largely funded by borrowings from the National Loans fund, the historic depreciation recovered in the P.S.O. grant producing only about 25% of the funds required. Since, under the P.S.O. rules, the Passenger business received a grant which was roughly equal to the loss, there were no funds being generated to repay the loans. Recognition of the inadequacy of this situation led to the creation of a Special Replacement Allowance (Cmnd 6836) which, by its inclusion in the P.S.O. grant, was designed to reduce the cash shortfall to a relatively smaller amount (about £30m per annum on average since 1977).

Total receipts price increases amounted to £134m (12.4%). This included Passenger receipts of £74m (12.3%), Freight receipts of £46m (12.4%) and Parcels receipts of £14m (12.7%). On the other hand, working expenses price levels increased by £150m (10.5%), including a 10% pay increase from April 1978. Thus, in total, the percentage price changes produced a real improvement in the loss before grants. In volume terms, Passenger receipts improved by £33m (5.5%) compared with 1977. This was accompanied by an increase in passenger miles from 18,200 million to 19,100 million (4.9%). Freight receipts fell by £5m (1.3%), with net tonne miles reducing by 100 million to 12,400 (0.8%) and tonnes remaining static at 170 million.

Discounting the Special Replacement Allowance of £50m, the

volume of working expenses increased by £59m. This included increased Revenue Investment of £37m. Staff numbers remained almost static at approximately 178,100.

In 1979, the loss before grants increased by £83m. Receipts price increases amounted to £138m (11.1%) consisting of Passenger £68m (9.6%), Freight £56m (13.6%) and Parcels £14m (11.8%). However, working expenses price increases, including a 14% pay increase (mainly from April 1979), increased by £223m (13.3%), giving a deterioration in net terms.

The volume of receipts improved by £25m (2.0%). This was made up of a £30m (4.2%) increase in Passenger receipts partly offset by a £4m (1.0%) decrease in Freight receipts and a £1m (0.8%) decrease in Parcels receipts. These changes were accompanied by an increase in Passenger miles of 800 million to 19,900 million (4.2%). Freight net tonne miles remained static at 12,400 million but Freight tonnes declined by 1 million to 169 million (0.6%). However, this net improvement in the volume of receipts was offset by a £23m (1.4%) increase in the volume of working expenses. This included increased engineering maintenance of £29m. Staff numbers again remained fairly static at approximately 177,900.

In 1980, the loss before grants deteriorated further by £190m. Receipts price increases produced £256m (18.3%), consisting of Passenger £140m (17.4%), Freight £89m (19.2%) and Parcels £27m (20.5%). However, working expenses price increases totalled £365m (19.0%) including a 20% pay increase from April 1980 and

large increases in fuel oil price levels. Thus, in net terms the price changes produced approximately equivalent increases in both receipts and expenditure.

However, in volume terms, there was a net deterioration of £81m, including a receipts reduction of £69m (4.9%) related mainly to the economic recession which was noted as affecting the results from about May 1980. That latter figure contained a £17m (2.1%) increase in Passenger receipts but a £69m (14.9%) reduction in Freight receipts and a £17m (12.9%) reduction in Parcels receipts. Of the £69m reduction in Freight receipts, £28m related to external industrial disputes, notably the British Steel Corporation strike in January/March 1980. Passenger miles reduced by 200 million (1.0%) to 19,700 million in 1980, contrary to the small increase in the volume of receipts. This was due mainly to resistance to the 1980 price increases. Freight net tonnes miles and tonnes reduced by 1,400 million (11.3%) and 16 million (9.5%), respectively, both a little lower than the percentage reduction in receipts. The volume of working expenses increased by £12m. This included an increase in engineering maintenance of £10m. Staff numbers reduced by 3,900 (2.2%) to approximately 174,000.

In summary, it can be seen that there has been a substantial deterioration in the loss before grants between 1974 and 1980. The variances are totalled in Table 6.25. where, by comparison with the data given in Table 6.2., it can be seen that the increase in the volume of Passenger receipts (24.1%) has not been matched by a similar improvement in passenger miles (2.6%)

| | | 1980 on 1974 | |
|---|---|---|---|
| | | B (Better) / W (Worse) | |
| | | £m | % * |
| Cause of Change | | | |
| Price Level of Receipts | | | |
| Passenger | B | 507 | |
| Freight | B | 373 | |
| Parcels | B | 112 | |
| Total | B | 992 | |
| Price Level of Working Expenses | W | 1255 | |
| Net Price Changes in Loss before Grants | W | 263 | |
| Volume of Receipts | | | |
| Passenger | B | 124 | 24.1 |
| Freight | W | 113 | 28.3 |
| Parcels | W | 46 | 37.8 |
| Total | W | 35 | 3.5 |
| Volume of Working Expenses | W | 100 | 5.8 |
| Net Volume Changes in Loss before Grants | W | 135 | 33.4 |

* Calculated by compounding the year on year percentage increases

Table 6.5. Railways Business - Causes of Change in Loss before Grants 1980 over 1974

(Source : BRB internal records)

mainly because of resistance in the price increases, particularly in 1975, 1976 and 1980. This has had the effect of reducing the yield (i.e. the gross increase minus customer resistance) on Passenger price increases over the period by about 20% or approximately £100m. The decrease in the volume of Freight receipts (28.3%) was larger than the reduction in Freight net tonne miles (19.8%) and Freight tonnes (13.9%) recorded in Table 6.5. because of a change of mix i.e. in

higher and lower rated carryings. However, the decrease in the volume of Parcels receipts (37.8%) was closely matched by the decline in Parcels tonnes (35.5%) recorded in Table 6.10. The increase in the volume of working expenses (£100m) included the accounting adjustments relating to the Railways Act, 1974, £13m) and the Special Replacement Allowance (which was £69m in 1980). Allowing for both of these factors, the net increase was £18m.

In terms of loaded train miles and resources, the changes between 1974 and 1980 are as depicted in Appendix 1(c). It will be observed that the reductions in Freight and Parcels loaded train miles were fairly consistent with the reductions in the volume of receipts. The same cannot be said on the Passenger side, however, where the 2.6% increase in Passenger miles was out of line with the 9.1% increase in loaded train miles. This has resulted in a partly unused increase in train mileage capacity but not in seats/berths capacity which Table 6.1. records as having declined by 1.4% between 1974 and 1980. The difference was caused by a reduction in the average seat capacity of the Passenger rolling stock i.e. reduced spare cover and, to some extent, shorter trains. The reduction in actual staff numbers between 1974 and 1980 (20,900 staff, 10.7%) was not completely matched by the reduction in manpower requirements (17,400 staff, 8.3%), with the level of vacancies having increased, therefore, by 3,500.

In respect of rolling stock, the reductions in locomotive hauled coaching vehicles (22.2%) reflected the reductions in

spare capacity and the advent of the H.S.T. sets (the three A.P.T. sets are not yet in commercial service). The reductions in diesel multiple units (5.0%) were closely related to the increase in electric multiple units (5.6%), and a result of relatively minor new electrification projects in the P.T.E. areas and in the L. & S.E. sector. The reduction in locomotives (14.9%) was related to the decline in Freight/ Parcels carryings and the introduction of the H.S.T. sets.

Returning to the financial situation, it is clear that the Railways Act, 1974, whilst providing a means of funding the Passenger business (i.e. P.S.O. grant), did not work satisfactorily on the Non-passenger side in 1975, 1976 and 1977. In those years, the 'break-even' objective was not achieved and Special Grants were paid by Government. The break-even situation was achieved in 1978 but in 1979 and 1980 Non-passenger losses of £2m and £48m, respectively, were sustained which have not been covered by any form of grants and have, consequently, been funded by borrowing. Whilst the information was not produced fully in earlier years, the Non-passenger losses in 1979 and 1980 were analysed by the BRE as given in Table 6.26. It can be seen that the losses have been related to the Freight business with the Parcels business attaining relatively small profits.

In respect of the P.S.O. grant, the Government introduced a cash limit arrangement in 1976 (Cmnd 6393). The level of the cash limit has been related to the 1975 actual payment, plus inflation, plus the Special Replacement Allowance (since 1978)

| | Non-Passenger Profit/(Loss) | |
|---|---|---|
| | 1979 | 1980 |
| Freight | | |
| Before Ancillary Income | (30) | (78) |
| Ancillary Income | 21 | 25 |
| Total | (9) | (53) |
| Parcels | 7 | 5 |
| Total Profit/(Loss) | (2) | (48) |

Table 6.26. Railways Business - Analysis of Losses 1979 and 1980

(Source : BRB internal records)

and minus declared adjustments. This assessment allowed for the fact that the P.T.E. grants were not funded directly by Central Government. This has been achieved by calculating the Central Government element and then adding the actual level of P.T.E. grants for each year. The combined total becomes what is described by the BRB as the P.S.O. cash limit.

The inflation element has been calculated by reference to the 'G.D.P. deflator' which runs close to the Retail Price Index (R.P.I.), but is a more comprehensive inflation index, the primary need for which is to reduce the Gross Domestic Product of the United Kingdom to constant price levels. The Special Replacement Allowance has been described earlier. The declared adjustments have arisen from a number of Government announcements, viz:-

Cmnd. 6836 - June 1977

Reduction of £20m in 1976 survey prices, by the end of the decade.

Hansard Written Answers - 12 November 1979

Reduction of £9m, in 1979 survey prices, in 1980/81.

Cmnd. 7841 - March 1980

Reduction of £15m, in 1979 survey prices, between 1980/81 and 1982/83.

The cash limit forecasts and the actual results from 1976 to 1980 are provided in Table 6.27. In this Table, minor previous year adjustments have been made to establish a more accurate comparison between the cash limits and the actual results. Thus, the actual P.S.O. levels are a little different to those given in Table 6.24. and Appendix 1(a).

| | P.S.O. Grant (incl. P.T.E.) | | | | |
|---|---|---|---|---|---|
| | 1976 | 1977 | 1978 | 1979 | 1980 |
| | £m | £m | £m | £m | £m |
| Cash Limit | 358 | 404 | 490 | 544 | 634 |
| Actual Grant | 323 | 362 | 434 | 530 | 634 |
| Headroom | 35 | 42 | 56 | 14 | - |

Table 6.27. Railways Business - P.S.O. Cash Limits and Grants 1976 to 1980

(Source : BRB internal records)

It will be observed that the BRB was able to work within the P.S.O. cash limits between 1976 and 1979, with a considerable 'headroom' existing up to 1978. This achievement was due

mainly to the low pay increases in 1976 and 1977 which, as a result of national pay policy, were considerably lower than the percentage increases in Passenger prices. However, the situation changed in 1979 when the pay increase of 14% was in no way matched by the yield from the Passenger price increase of only 9.6%, causing the headroom to drop to £14m. In 1980, the working expenses price increases (19% including the 20% pay increase), again exceeded the Passenger price increases which yielded 17.4%. This was the main cause of the complete elimination of the headroom. Indeed, the situation was slightly worse than so far portrayed, in that the P.S.O. Grant was actually constrained by the cash limit. Thus, the Passenger Loss of £32m shown in Table 6.24 was not merely the result of applying the 'sweeper', as explained earlier, but included £6m for the effect of this constraint.

In respect of the Non-Passenger situation, the Government introduced a further cash limit in 1976 to cover the special grants which were expected to be paid. This was more arbitrary in the method of assessment and was set at £60m for 1976, £25m for 1977 and nil thereafter. Allowing for previous year adjustments, the Non-passenger grants were £27m in 1976 and £5m in 1977, both well within the cash limits. Again, the main reason for this satisfactory performance was the low pay increases in 1976 and 1977. In 1978, the break-even situation was achieved, almost exactly. However, losses have been incurred since 1978 for which no form of Government grant has been made available. Thus, as mentioned earlier, the losses of £2m and £48m in 1979 and 1980, respectively, have been borrowed.

Additionally, the Government introduced an overall financing cash limit in 1976, known as the External Financing Limit (E.F.L.) covering the overall finance requirements of the BRB and not just the Railways business. The relative figures emerge from the 'Financing Statement and Budget Report' issued by the Treasury on budget day each year. The E.F.L. procedures were established under Cmnd. 6440 in April 1976. Up to 1979/80 this has not been a particular problem to the BRB since the Treasury have based their published figures on B.R. estimates which have been high enough to meet the necessary requirements. The 1979/80 figure, however, was broadly based on an estimate provided by the Board in the Autumn of 1978 and updated by the Department of Transport to reflect their view of inflation. It did not reflect the Board's view of emerging events (particularly the 1979 pay increase) and thus became a new and very tough cash limit.

Consequently, during 1979/80 the Board, for all its businesses, had to work within an overall E.F.L. of £715m, designed to cover all funds required, i.e.:-

P.S.O. grant (not the P.S.O. cash limit).

Level Crossings Grant (received from Central Government since 1975 under E.E.C. Regulation 1192/69).

Pensions Grants (£125m).

All borrowings (including an estimate of the full value of assets acquired by leasing).

This figure was achieved (actual of £714m) by reduced investment (revenue and capital), increased sales of assets (including property), short-term control of labour costs and a stringent

control of working capital (notably stocks, debtors and creditors).

In the 1980/81 fiscal year, the Pensions Grant was removed from the E.F.L. procedures because of a changed method of funding the actuarial deficiencies of the 'closed' funds (Transport Act, 1980) which involved deferring the funding until the pension funds needed the money to pay the pensions. The E.F.L. was set at £750m, (which was equivalent to an increase of 27%) and this level was considered to be close to the forecast requirement and more consistent with the P.S.O. cash limit arrangements. However, following the British Steel Corporation strike in the early part of 1980 and the effect of the recession, which was also becoming evident in BRB finances in the first half of 1980, the 1980/81 E.F.L. was revised by the Government to £790m. The increase of £40m was related to the 'borrowings' part of the E.F.L. and was not a further grant, it being intended as a one-off feature which would not influence the assessment of the 1981/82 E.F.L. Again, this figure was achieved (there was an actual of £790m) but, in this case, this was largely due to the speedy sale of a large amount of non-operational property which offset the excess requirements of the Railways business.

In concluding this section, note needs to be made of the fact that, apart from setting the cash limits which have been discussed, the Government agreed with the BRB a number of interim financial targets during late 1979 and 1980 as announced in Cmnd 6836. These were related to the BRB's corporate planning process and were provided as follows:-

a) The Inter-city sector of the Passenger business should improve its contribution to indirect costs (after charging all direct costs, provision for full current cost depreciation and amortisation of the assets, interest and the net cost of train catering) from £94m in 1978 (£125m in 1980 prices) to £159m (in 1980 prices) by 1982.

b) The Freight business should, in 1982, cover two thirds of its current cost depreciation and amortisation (with further progress thereafter) after meeting its direct costs and its agreed contribution to indirect costs.

c) The Parcels business should break-even in 1982, before interest but after current cost depreciation and amortisation and after meeting its charges for direct and indirect costs on the present basis.

d) Sealink UK Ltd. should achieve a real return before interest and tax of 5% on the net replacement cost of owned and leased ship and harbour assets, excluding services operated on behalf of the Railways and other businesses.

These interim targets were designed to supplement the cash limit arrangements until 1982 and be replaced by longer term targets once the BRB had produced an acceptable corporate plan for these businesses/sectors. Further details of the relationship with BRB's corporate planning process are given in Chapters 10 and 11.

## 6.3. Current Financial Situation and Immediate Prospects

Appendices 1(a) to 1(c) include what is known, within the BRB, as the 12 Weeks Outturn forecasts of financial and physical results of the Railways business for 1981. This represents an update of the 1981 budget as seen by the BRB in May 1981. In Appendices 1(a) to 1(c), these figures are described as the 'forecasts for 1981' and it will be seen in Chapter 16 that they have been used in determining the variances between plan forecasts and 'actual' results, with the 'forecast for 1981' being used in place of (and in the absence of) the actual result for that year.

This has greatly facilitated the analysis in Chapter 16, making it a reasonably up to date examination. However, during the period of finalising and editing the drafts of this thesis, further BRB forecasts have become available, making it possible to provide data relating to the situation as seen by the BRB up to October 1981.

To facilitate the discussions in Chapter 16, it is now intended to discuss the figures as seen by the BRB in May 1981, using the pattern established in Section 6.2. However, to bring the data up to date, it is intended, later in this Section to state briefly how the situation has changed up to October 1981.

The May 1981 forecast of the financial result for that year (see Appendix 1(a)) was a loss before grants of £844m, a deterioration of £130m on the 1980 result.

Receipts price increases were expected to produce £197m (12.4%) over 1980, consisting of Passenger £125m (13.0%), Freight £56m (11.6%) and Parcels £16m (11.3%). The Passenger expectation was based upon the assumption that the resistance to the November 1980 price increase (gross 18.5%) would be 2.8% and that that in respect of a planned smaller Autumn 1981 price increase would be 2.6%. These assumptions accounted largely for the 4.1% reduction in Passenger miles recorded in Appendix 1(c). Working expenses price increases were expected to amount to £319m (13.9%), part of which was related to the residual effect of the April 1980 pay increase. This meant that the net effect of receipts and working expenses price increases was expected to be an adverse figure of £122m.

As noted in Appendix 1(a), in volume terms, Passenger receipts were expected to reduce by £13m and Freight receipts by £12m (compared with 1980), both largely related to the economic recession. The Freight reduction was actually much worse than it seemed, since the 1980 result included a reduction on 1979 of £28m related to industrial disputes (notably the British Steel Corporation strike). On the Parcels side, the volume reduction of £32m was also partly due to the recession but was mainly (£26m) related to the decision, noted earlier, to pull out of the C & D sector on 1 July 1981. The volume reduction in working expenses (£49m) was also partly related to this feature, where a net reduction of £12m was expected after allowing for once-only outpayments (mostly redundancy) of £11m. The balance of the working expenses reduction was in respect of revenue investment (£10m) and to reductions in operating and

engineering expenditure.

The overall volume reduction in working expenses compared with 1980 was reflected in the reductions in loaded train miles and resources recorded in Appendix 1(c). The most striking figures were, however, the anticipated reductions in manpower requirements (14,200) and manpower numbers (5,300). These represented a significant improvement over the reductions achieved in recent years and were forecast to reduce the 1980 vacancy level by 8,900 to 9,900 posts.

In terms of the cash limits, it was forecast by the BRB that the 1981 PSO requirement would be £47m above the Government's cash limit level. This was despite an increase of £23m in the cash limit (Hansard - Written Answers, 10 December 1980) designed to postpone the 1981 Passenger price increase from its proposed date (September) to November 1981. On the Non-passenger side, the loss was expected to amount to £57m, all of which would need to be borrowed. This Non-passenger loss was analysed as follows:-

| | | £m |
|---|---|---|
| Freight | Loss | 76 |
| Ancillary Income | Profit | 26 |
| | Loss | 50 |
| Parcels | Loss | 7 |
| | Loss | 57 |

The 1981/82 overall external financing limit was set by Government at £867m. However, this was supplemented by a separate EFL of £53m (borrowings only) to allow for the once-off effects of implementing the strategy of pulling out of the C & D parcels

sector. In the event, only approximately £15m of that latter figure was thought by the BRB to be required. However, the limit of £867m was expected to be exceeded by approximately £70m. This has caused a good deal of anxiety in the BRB and numerous discussions with Department of Transport officials, aimed partly at encouraging the amalgamation of the two limits to show a net difference of £32m.

The October 1981 forecast of the result for that year suggested that the loss before grants would be £854m, with the PSO cash limit shortfall being £83m and the Non-passenger loss £29m. The deterioration in the Passenger forecast compared with the 12 Weeks Outturn was ascribed as being due to further receipts volume reductions arising mainly from the economic recession (£40m) and, to a minor extent (about £2m), to coach competition. The improvement in the Non-passenger business forecast was seen to be mainly in respect of the Freight business (£24m) and was related partly to increased receipts volume (£12m) and partly to reduced (mainly operating and maintenance) expenditure (£12m). The manpower forecast was expected to reduce slightly (again compared with the 12 Weeks Outturn) by 251 staff but with a proviso that current trends indicated a further reduction of 500 staff.

The overall EFL shortfall was expected, in October 1981, to be close to the May forecast with the improved Freight situation offsetting the deteriorating Passenger forecast. Additionally, action was being contemplated (on the assumption that the Government would eventually agree to merge the two external

financing limits) to close the gap by taking emergency action to reduce working capital, investment and maintenance and increase the sale of assets, particularly property.

Further, in recognition of the fact that the deteriorating Passenger situation was related to the economic recession (and was thus beyond the control of the BRB) the Department of Transport had agreed to consider increasing the 1981 PSO cash limit and grant to a level closer to the October 1981 estimate, provided that the EFL remained unchanged, i.e. enabling the grant portion of the EFL to be increased and the borrowings portion to be decreased by the same amount. An announcement in this regard was expected before the end of 1981.

The provisional budget forecasts for 1982, also available in October 1981, suggested that considerable financial problems would ensue in that year, given continuance of the economic recession and the need to recover a backlog of essential maintenance and renewal of assets. These forecasts suggested that the overall financing requirement could be as much as £150m to £200m above the anticipated level of the external financing limit. This possibility was also due to the likelihood of the 1982/83 EFL being lower than might perhaps be expected (i.e. allowing for the 1981/82 level plus inflation), but being based instead on lower forecasts contained within the 1980 corporate plan. Further details of this issue are given in Chapter 16, in relation to forecasts contained in the draft (May 1981) version of the 1981 Rail Plan and their comparison with the 1980 Rail Plan.

Urgent efforts are currently taking place to overcome this financial problem, including attempts at persuading the Government to increase the anticipated EFL (£900m) to a higher figure. However, it is expected by many BRB managers that further cut-backs in maintenance and investment, coupled with asset disposals will prove to be the only significant available solutions. Some further reductions in manpower (i.e. beyond the levels included in the provisional 1982 budget) are also being sought.

As noted in Chapter 5, some attention is also being paid by the BRB to passenger pricing, but on an experimental basis and related partly to the increased coach competition. A number of quite large scale 'low price' experiments have been introduced on the Eastern, London Midland and Western Regions (mainly Inter-city journeys to London) which have been considered by the General Managers concerned to have prevented volume reductions from being greater than they have been in 1981 and to have 'paid-off' in the sense that the generated passenger journeys have been proportionately greater than the price reductions. It is too soon to tell what will happen (and, certainly one cannot glean any information from the forecasts contained in the provisional 1982 budget) but it is being speculated, inside the BRB, that the experiments might be extended so far that they will form a new strategy and change the culture of the Passenger business (or, more correctly, its Inter-city sector) into one of low price/high volume rather than the other way round.

This potential change of strategy was noted in the Financial Times on 23 October 1981 when their Transport Correspondent (Lynton McLain) paraphrased an apparent BR comment as follows:-

> 'BR said last night that the exercise was a calculated business risk and its results will be reviewed in January. By then the new approach to low fares could have hardened into a formal strategy under which BR goes all out for a high volume, low yield per passenger marketing strategy.'

The author would speculate that such a change of strategy might be found to be incompatible with the 'high speed' developments (notably the future introduction of the Advanced Passenger Train) contained within all of the recent Rail Plans, which have always been related to a 'high price' strategy.

In summary, it will be appreciated that there has been a marked deterioration in the BRB's financial situation since the end of 1980. This has created what is regarded by many BRB managers as a financial crisis situation. It will be seen towards the end of Chapter 16 that, without urgent action, the crisis will not be overcome in the short term.

To conclude this section and, indeed, this chapter, it is intended to provide brief comments on the topic of 'privatisation' as it affects the BRB. The issues involved have stemmed from an announcement by the then Minister of Transport on 14 July 1980 to the effect that private capital would be introduced into some of the subsidiary businesses of the BRB and that a wholly owned holding company would be set

up, by the BRB, for implementation of this policy. That company, British Rail Investments Ltd. (BRIL) was created in November 1980 with the intention that, as soon as possible after the enabling legislation (Transport Act 1981), the following subsidiary businesses would be transferred to the ownership of that company:-

- Sealink UK Ltd.
- BR Hovercraft Ltd.
- British Transport Hotels Ltd. (excluding station and train catering sector)
- Part of the non-operational property portfolio of BR Property Board

The Government intended that the introduction of private risk capital into these subsidiaries would provide investment funds which would not otherwise be forthcoming and would, thus, greatly assist their development and financial performance. Additionally, they have clearly indicated that, following the introduction of private 'risk' capital, the BRB should find itself in a minority shareholding situation. The words used in the Minister's statement were:-

'The Government and the Chairman have now completed a a preliminary examination of the opportunities for involving private risk capital to a significant extent in financing these subsidiaries. We both believe that it will be to the advantage of British Rail, as a significant element in the economy, its workforce and the public using its services to take advantage of these opportunities.....The Government and the Board recognise that these subsidiary enterprises will not secure essential commercial freedom unless private capital is attracted in sufficient volume and unless private investors are assured of sufficient control through their shareholdings to ensure that the enterprises will be able to operate on equal terms with competitors in their respective markets.'

The BRB have accepted that privatisation will produce additional

and much needed investment funds for these subsidiary businesses, despite a measure of reluctance to become a minority shareholder of each company. Attitudes on this matter have not only been conditioned by the investment issue, however, but by the prospect of assisting achievement of EFL targets in 1981/82, 1982/83 and beyond by the proceeds from the sale of each majority share holding, or parts of each subsidiary.

Since the formation of BRIL, a bid has been made by European Ferries Ltd. to take-over Sealink UK Ltd. That bid is not supported by the BRB, who wish to retain a substantial shareholding to safeguard the operating and commercial relationships between Sealink and the Railways business. The bid has been referred by the Government to the Monopolies and Mergers Commission. Their report is expected towards the end of 1981.

In respect of BR Hovercraft Ltd., this was merged with Hoverlloyd Ltd. (a subsidiary of Brostroms Rederi) in October 1981, with BRIL and Brostrom each holding a 50% shareholding. It is intended that SNCF (French Railways) will be allowed to acquire shares equally from each of the existing participants. This merger was also submitted to the Monopolies and Mergers Commission for consideration but received their approval in June 1981.

To assist the privatisation of B.T. Hotels Ltd., the BRB intend to transfer the station and train catering sector of BTH to the BRB itself as part of the Railways business. In respect of the remaining hotels sector, the emerging strategy seems to be

related to selling individual hotels or, at least, a majority shareholding in each hotel. Three of the hotels have already been dealt with by the formation of a new independent company (Gleneagles Hotels Ltd.) which has acquired Gleneagles, the North British and the Caledonian hotels. The BRIL shareholding is one-third of the issued share capital.

In respect of non-operational property, the privatisation principles of part ownership of a large portfolio have largely been overtaken by the EFL problems. This has resulted in emphasis being placed on the sale of individual properties to produce speedy cash flow benefits.

Finally, the possibility of the introduction of private capital into Railways business projects is being mooted within the BRB, particularly in respect of main line electrification and the Channel Tunnel (see Chapter 11). In this connection, whilst the BRB have expressed confidence about the financial viability of these major projects, problems exist as to how risk capital can be introduced, which would require that an accurate return on investment be measured. This might be possible in connection with the Channel Tunnel where the Railways business and SNCF could pay a toll charge to a separate company owning the tunnel, but would be difficult to operate in respect of the electrification proposal.

# CHAPTER 7

# NATIONAL FREIGHT COMPANY LIMITED

In order to undertake effectively the proposed examination of the corporate planning process and procedures of the National Freight Company Limited (NFC), it is necessary to provide details of the organisation by way of additional background information supplementing the information given in Chapter 5. Such a chapter could be lengthy but the author has set out to be as brief as possible, identifying the main features which adequately describe the nature and size of the organisation and its financial situation. Indeed, these two features will be used as section headings. This pattern will also apply to the next two chapters where, for the reasons mentioned in Chapter 1, the amount of historical detail is considerably less than that provided in respect of the British Railways Board.

Reference will be made in Section 7.1. to the intention of the present Government to de-nationalise the NFC, probably in 1982. That process has already meant the transfer of the assets of the original National Freight Corporation to the National Freight Company Limited on 1 October 1980, as a prelude to denationalisation through the flotation of shares.

## 7.1. The Nature and Size of the NFC

The National Freight Company Limited was created originally as the National Freight Corporation under the Transport Act 1968 and began business on 1 January 1969. On that date, the road

freight organisations of the Transport Holding Company were transferred to the ownership of the Corporation. The main organisations transferred were British Road Services Limited, Pickfords Limited, Tayforth Holdings (1965) Limited and Harold Wood & Sons Limited. Additionally, as discussed in Chapter 6, the 'sundries' business of the British Railways Board was also transferred in the form of a new company National Carriers Limited. Finally, the freightliner business of the British Railways Board was made into a limited company, Freightliners Limited, and 51% of its shares were vested in the Corporation (only to return to the BRB later, as noted in Chapter 6).

The purpose of creating the NFC was to establish an organisation which could rationalise that part of the nationalised transport sector where road transport of freight/parcels was partly or wholly necessary. In the 1969 annual report and accounts, NFC described the traffics carried by the new organisation as consisting of 'parcels and general merchandise carried from door to door, and special freight such as household removals, bulk liquids or powders, abnormal loads, car bodies and cars and other consignments, whether within the United Kingdom or to places abroad.'

The arrangements made with the British Railways Board were such that the Corporation would employ the BRB to carry some of its traffic by rail for part of its overall journey. This arrangement was meant to apply particularly to the 'sundries' business transferred from the BRB (see Chapter 6) dealt with by the new

company, National Carriers Limited. Similarly, the BRB, in transferring its fleet of lorries, undertook to employ the Corporation (i.e. its National Carriers Limited subsidiary) to convey by road that portion of its parcels traffic and remaining freight traffic (i.e. excluding 'sundries') for which road collection or delivery was necessary. Both these arrangements were to be undertaken on a commercial basis, allowing for recovery of costs plus profits.

The Government's intention was that the National Freight Corporation should be run on a commercial basis, without any form of subsidy. Section 42(2) of the Transport Act 1968 stated that the Corporation should 'secure that the combined revenues of the authority and of their subsidiaries taken together are not less than sufficient to meet their combined charges properly chargeable to revenue account, taking one year with another.' Additionally, it should make 'proper provision for the depreciation and renewal of assets.' However, it was recognised that, while the Transport Holding Group Companies were profitable, the 'sundries' business of the British Railways Board was not. It was considered by both BRB and the Corporation that neither was the freightliners business, although separate accounts were not maintained by the BRB for that aspect of its business. Losses of approximately £20m per annum for the transferred 'sundries' business were recorded by the BRB and the freightliner loss was thought to be about £3m in 1968. These figures were quoted in NFC's annual report and accounts for 1969 in support of temporary subsidies that had been agreed with Government to cover the expected losses (including interest) of

National Carriers Limited. This subsidy of up to £60m over a period not exceeding five years was also stipulated in the 1968 Act.

Since its creation in 1969, the Corporation and, more recently, the new Company has become considerably more diversified and has carried out extensive rationalisation as was originally intended. It has remained the largest road freight haulage organisation in the United Kingdom but, in terms of resources, it is a smaller organisation. For example, the number of staff employed at the date of transfer to the new company was 30,595, some 35,500 fewer than those employed at the beginning of 1969.

Indeed, in the annual report and accounts for the nine months ended 30 September 1980, the Chairman of the NFC explained that the Corporation had, since 1969, achieved a substantial diversification away from low profit general haulage activities into specialised areas with better profit potential. This was associated with 'investment and marketing policies which put the emphasis on customer-backed and contractual activities.' The pace of the diversification strategy has been increased since 1975 in an attempt at making NFC more robust in order that the financial problems encountered during that year (see Section 7.2.) should be short lived and not repeated. By far the most significant feature has been the development and extension of contract hire of vehicles and contract distribution of freight.

The structure of the National Freight Company has changed over

the last twelve years but in recent years, in terms of main organisational 'groups', it has been as described in Figure 7.1.

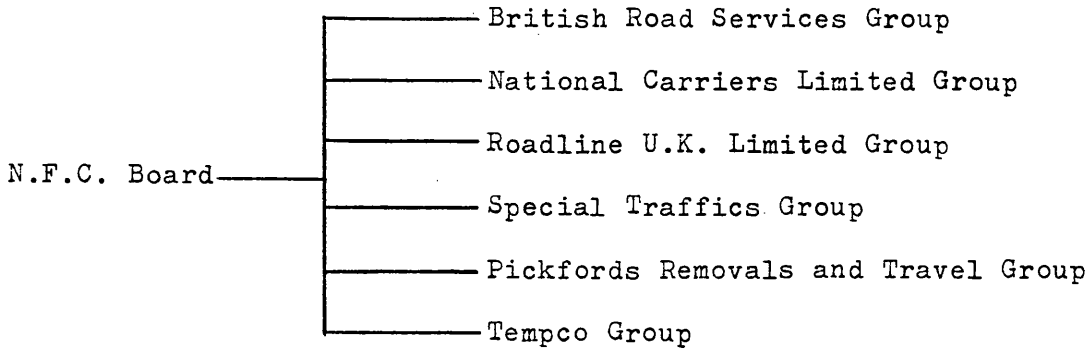



Fig. 7.1. National Freight Company - Group Structure
(Source : Discussions with NFC planners)

Each of the Groups is headed by a Group Managing Director, three of whom are members of the board of the National Freight Company. The new Company board and senior executive structure is as depicted in Figure 7.2.

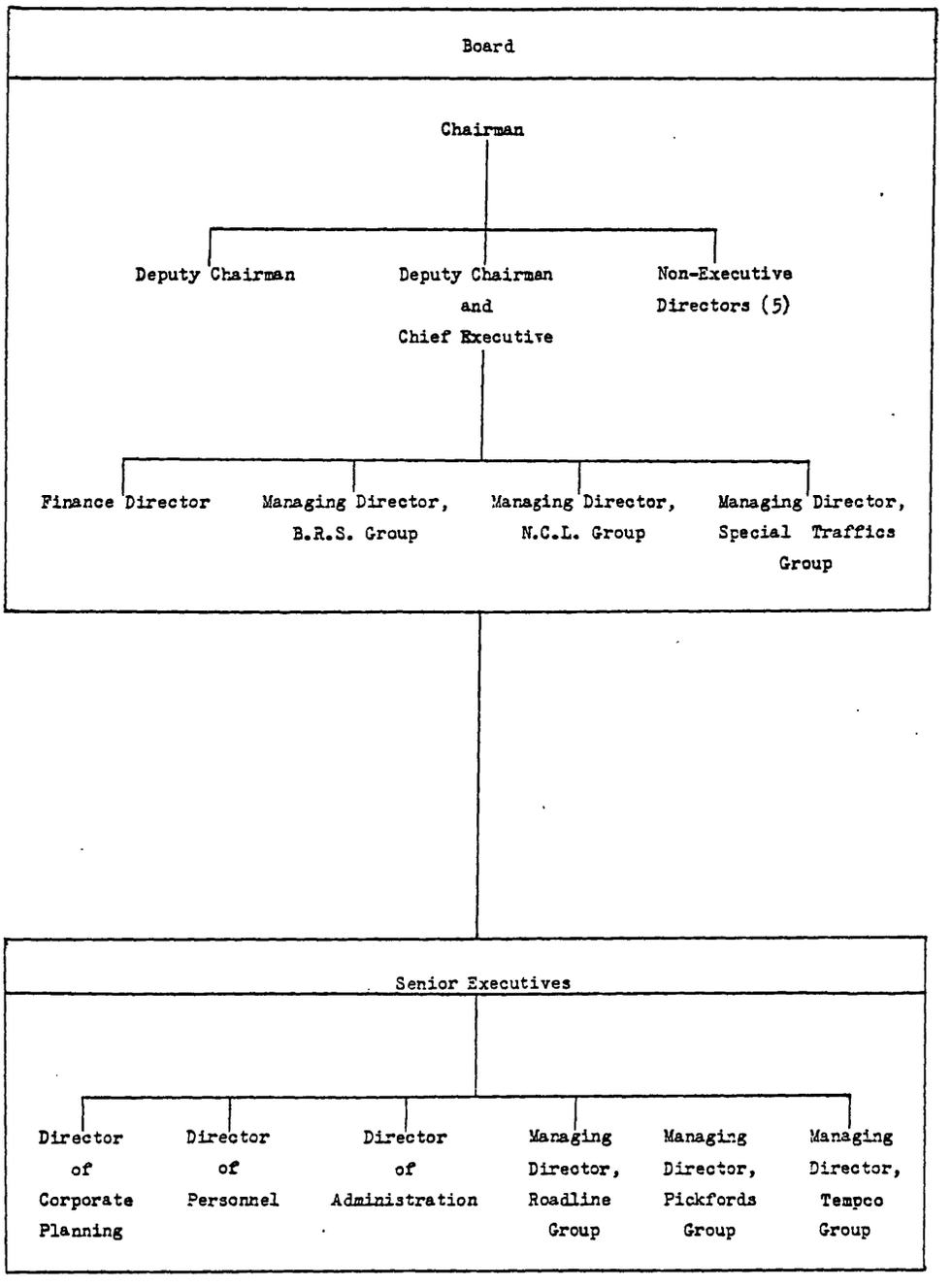



Figure 7.2 - National Freight Company - Organisation Structure.

(Source: Discussions with National Freight Company Planners).

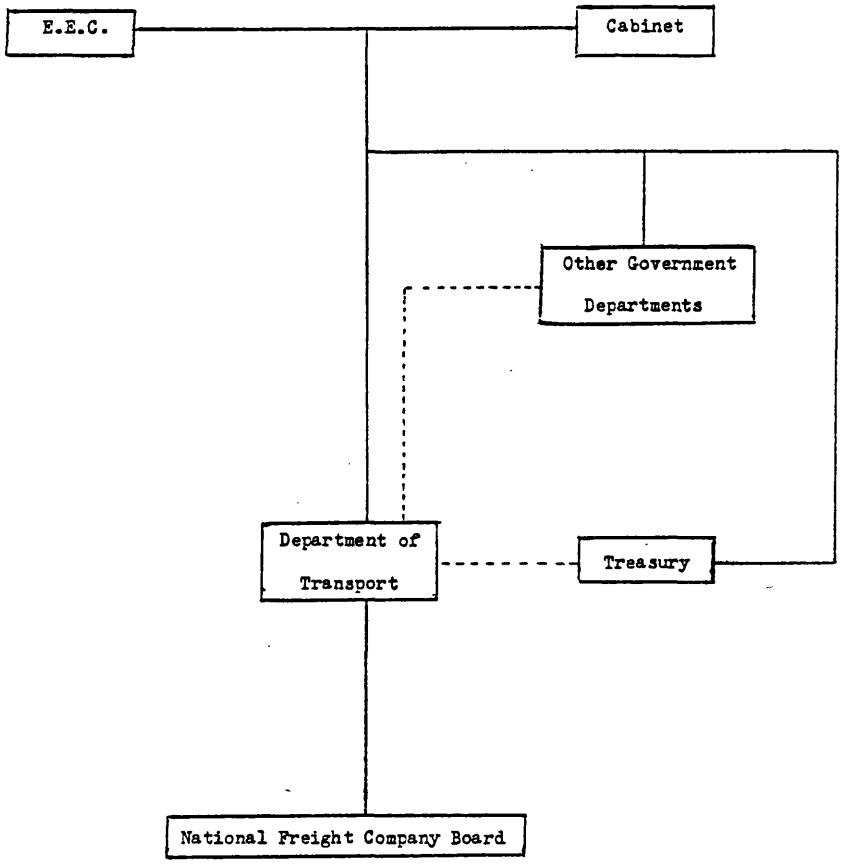
The structural relationships with Government are very similar to those of the British Railways Board and will remain so until de-nationalisation. The position is summarised in Figure 7.3. wherein it can be seen that the 'sponsoring' Government department is the Department of Transport. The Secretary of State of that Department has responsibilities similar to those held in respect of the British Railways Board. These include establishing and/or agreeing objectives (including cash limits), setting policy guidelines, strategy approval, plan approval, major investment approval and monitoring the performance of these.

To understand further the nature and size of the National Freight Company, it is considered necessary to examine each of the Groups in turn and then provide some overall physical statistics. The statistics provided will generally be related to the year ended 31 December 1979, the last full year for which accounts were prepared (accounts were prepared for nine months ended 30 September 1980 i.e. up to the date when the Corporation's assets were transferred to the new Company).

### 7.1.1. British Road Services Group

This Group contains the following companies:-

British Road Services Ltd.
- Bridges Transport Ltd.
- Eastern British Road Services Ltd.
- H S Morgan Transport (Southampton) Ltd.
- Islandlink Ltd.
- Midlands British Road Services Ltd.
- Morton's (BRS) Ltd.
- North Eastern British Road Services Ltd.
- North Western British Road Services Ltd.
- Southern British Road Services Ltd.
- Watson's (Carriers) Ltd.
- Western British Road Services Ltd.
- William Cooper & Sons (Carriers) Ltd.




Notes:

1 Unbroken lines indicate direct responsibility.

2 Broken lines indicate spheres of influence.

Figure 7.3 - National Freight Company - Main Relationships with Government.

(Source: Discussions with National Freight Company Planners).

Scottish Road Services Ltd.
Scottish Road Services (Forth) Ltd.
Scottish Road Services (North) Ltd.
Scottish Road Services (West) Ltd.

The combined turnover of this Group in 1979 was £153.3m made up of:-

| | £m |
|---|---|
| Freight receipts, including contract hire and contract distribution | 129.1 |
| Warehousing and storage | 9.6 |
| Property rentals and other items | 14.6 |
| | 153.3 |

Apart from carriage and warehousing of freight, this Group is involved in a number of ancillary activities which have been developed in recent years. These include hire of road freight commercial vehicles, rescue services, a freight transport brokerage service and a freight transport consultancy service. Each regional company offers a distribution service in its own area, calling upon other Group resources for services which extend outside its territory. Where a national distribution service is required by any customer, all of the resources of the Group can be called upon to produce an integrated service. The contract hire and contract distribution services now represent the largest part of the trading activity, with the general haulage service representing less than one-third of the total turnover of the Group. Indeed, NFC describe the British Road Services Group as the market leader in contract hire.

The Group owned/leased 7,953 powered road vehicles, 3,598 trailers and 795 containers and other demountable bodies at the end of 1979. The aggregate tonnage capacity of this fleet was 83,090 tonnes and the vehicle miles run during 1979 was 199m. Staff numbers were 9,676 at the end of 1979.

7.1.2. National Carriers Limited Group

This Group includes four companies, viz:-

National Carriers Limited

Fashionflow Limited

Fashionflow (National Carriers) Limited

P.B.D.S. (National Carriers) Limited

National Carriers Limited is involved in the carriage of 'small lots', i.e. consignments up to 3,000 kg. It has, since 1969, provided road transport collection and delivery of parcels for the British Railways Board, but this ceased on 1 July 1981 when the BRB withdrew from their collected and delivered parcels sector. The reciprocal arrangement of conveying some National Carriers Limited traffic by rail for part of its journey had been phased out as uneconomic by the mid 1970's. Likewise, there has been a considerable strategic reduction in the amount of BRB freight traffic requiring road collection/delivery (by NCL) with the level of this traffic being negligible by 1981.

National Carriers Ltd. has increasingly moved into specialist freight distribution activities and has negotiated contracts with many large firms including Woolworths, B.M.W., Rowntree-Mackintosh and Boots. The Company has also moved into

providing road vehicle maintenance facilities for fleet owners. The other companies are engaged in contract distribution and represent part of the diversification into specialist areas. Fashionflow Limited is a service dedicated to Marks and Spencer traffic, whilst Fashionflow (National Carriers) Limited was created to exploit generally the market for the carriage of garments and textiles. P.B.D.S. (National Carriers) Limited was acquired in 1979 from Pitman Limited and provides a specialist service to the book trade.

The combined turnover of these companies in 1979 amounted to £113.4m, made up as follows:-

| | £m |
|---|---|
| Freight receipts, including BRB cartage and contract distribution | 100.3 |
| Warehousing and storage | 3.9 |
| Property rentals and other receipts | 9.2 |
| | 113.4 |

At the end of 1979, this Group owned/leased 5,858 powered road vehicles, 4,894 trailers and 12 containers. The aggregate tonnage capacity of this fleet was 37,561 tonnes and the vehicle miles run during 1979 amounted to 96 million miles. Staff numbers totalled 12,289 at the end of 1979.

7.1.3. Roadline U.K. Limited Group

This Group consists of three companies:-

Roadline U.K. Limited - formerly B.R.S. Parcels Limited

Hanson Haulage Limited

Islandlink (Jersey) Limited

Each company deals almost exclusively with the conveyance of parcels traffic, handling 41 million packages in 1979. This involves a door to door collection and delivery service of parcels for industry and commerce using a nationwide network of depots. Consignments are consolidated with others bound for similar destinations. Some specialist services have been developed including express deliveries and the 'break-bulk' and distribution of traffic brought in by customers. Additionally, Roadline has purchased the commercial vehicle fleet of a number of firms and provides them with a total delivery service.

The combined turnover of the Group in 1979 amounted to £56m, analysed as follows:-

| | £m |
|---|---|
| Freight (i.e. parcels) receipts | 55.0 |
| Warehousing and storage | 0.5 |
| Property rentals and other receipts | 0.5 |
| | 56.0 |

At the end of 1979, this Group owned/leased 2,694 powered vehicles, 2,197 trailers and 262 containers. The aggregate tonnage capacity of the fleet was 17,088 tonnes and vehicle miles run during 1979 amounted to 50 million miles. Staff numbers totalled 6,775 at the end of 1979.

7.1.4. Special Traffics Group

This Group consists of the following companies:-

Cartransport Ltd.
  Auto Freight Transport (N.I.) Ltd.
Containerway and Roadferry Ltd.
  Ferry Trailers Ltd, Northern Ireland
Cotrali - Pickfords Ltd.
  Manchester Number One Bonded Warehouse Co. Ltd.
  Cotrali SARL, France
Lawther and Harvey Ltd, Northern Ireland
  Lawther and Harvey (Ireland) Ltd, Republic of Ireland
Pickfords Heavy Haulage Ltd.
Pickfords International Air Charter Co. Ltd.
Tankfreight Ltd.
  Felixtowe Tank Developments Ltd.
Waste Management Ltd.
  Waste Clearance (Holdings) Ltd.
  Waste Incineration Ltd.
  Hedco Landfill Ltd.
  Norwaste Ltd. and subsidiaries

As implied by the title of the Group and the names of the companies, this Group is a conglomerate which deals with highly specialised carriage of goods including cars, wine (Cotrali-Pickfords), heavy items, factory removals, traffic in tanks and refuse. The turnover in 1979 amounted to £67.4m, made up as follows:-

| | £m |
|---|---|
| Freight Receipts | 51.1 |
| Warehousing and storage | 1.7 |
| Property rentals and other receipts | 14.6 |
| | 67.4 |

At the end of 1979, this group owned/leased 1,068 powered vehicles, 499 trailers and 4,037 containers and demountable bodies. The aggregate tonnage capacity of this fleet was 22,190 tonnes and the vehicle miles run during 1979 amounted to

31 million miles. Staff numbers totalled 2,657 at the end of 1979.

7.1.5. Pickfords Removals and Travel Group

This Group consists of Pickfords Removals Limited (and subsidiaries) and Pickfords Travel Service Limited. As these titles imply the companies deal respectively with household/industrial removals and with a network of travel agencies. Pickfords Removals Limited is described by NFC as the largest removal business in the United Kingdom capable of 'moving house' (or office) to any corner of the world. A specialist service has been developed within this company dealing with the distribution of new furniture. Pickfords Travel Service Limited is described by NFC as the second largest travel agency in the in the United Kingdom.

The turnover in 1979 amounted to £32.0m, analysed as follows:-

| | £m |
|---|---|
| Freight receipts | 22.3 |
| Warehousing and storage | 3.7 |
| Property rentals and other receipts | 6.0 |
| | 32.0 |

At the end of 1979 this Group owned/leased 783 powered vehicles and 16 containers. The aggregate tonnage capacity of this fleet was 5,421 tonnes. Staff numbers, at the end of 1979, totalled 2,681.

7.1.6. Tempco Group

This Group consists of three companies:-

Tempco International Limited
Tempco T.I. Engineering Services Limited
Gerdor Limited, Republic of Ireland

These companies provide temperature-controlled storage and distribution services and related engineering consultancy the turnover in respect of which amounted to £4.2m in 1979. This was analysed as follows:-

| | £m |
|---|---|
| Freight receipts | 0.7 |
| Warehousing and storage | 2.6 |
| Property rentals and other receipts | 0.9 |
| | 4.2 |

At the end of 1979, this Group owned 22 trailers and employed 182 staff.

7.1.7. International Group and Others

Apart from the main Groups mentioned in Sections 7.2.1. to 7.2.6, the NFC has a number of other trading and non-trading companies, which are described under the above heading. These produced a turnover of £5.8m in 1979 and, at the end of 1979, the Group employed 289 staff.

The primary sources of income have been obtained from diversification into transport and distribution consultancy, computer services, commercial vehicle body-building and development of instruments and monitoring equipment.

7.1.8. Overall Situation

It is clear from the foregoing that the NFC is a very large organisation which has, since 1969, diversified its general freight/parcels road haulage activities into a large number of related and, usually, specialist areas. However, it should be appreciated that a small part of this diversification process commenced before the creation of the Corporation, particularly in respect of the household removals, heavy haulage and travel agency activities undertaken by Pickfords Limited.

In total, at the end of 1979, the Corporation owned/leased 18,362 powered road traffic vehicles, 11,218 trailers and 5,122 containers and other demountable bodies. The vehicle miles run during 1979 totalled 392 million. The total staff numbers employed amounted to 34,549.

However, as noted earlier, the Corporation ceased trading on 30 September 1980 and all of the assets were transferred to the new Company which began trading on 1 October 1980. The net balance sheet value of those assets was £73.5m and included 16,548 powered road traffic vehicles, 9,221 trailers and 5,716 containers and other demountable bodies. As part of this arrangement, a capital debt to the Department of Transport (£100m) was extinguished. After also writing off goodwill of £5.5m, the net value of the assets was reduced to £68.0m financed by:-

| | £m |
|---|---|
| Share Capital (held by Secretary of State) | 5.0 |
| Share Premium and Reserves | 61.1 |
| Debentures and Loans | 1.0 |
| Minority Interests | 0.9 |
| | 68.0 |

The transfer was catered for in the Transport Act 1980 with the expressed intention of transferring the new Company into the private sector. Initially, the £5m share capital is held by the Secretary of State for Transport. It had been intended to float these shares on the stock market during 1981 but the Company considered that, with recent financial results being depressed by the recession, it would be prudent to delay the flotation until late 1982.

More recently, however, the Deputy Chairman and Chief Executive of the Company has announced proposals for what the Financial Times (19/6/81) has described as 'far and away the biggest management buy-out that has ever been organised in the U.K.' The outline proposal was that the management and staff of the NFC provide about £5m for a majority equity holding with about £45m to be provided by outside bodies as medium term loans and, perhaps, as redeemable preference shares. The total of £50m was considered by NFC management to be what the Government would obtain from a stock exchange flotation in the Summer of 1982.

The Government has given approval to the management buy-out and

has announced that the purchase price is to be £53.5m (Hansard 19 October 1981). A considerable commitment on the part of senior NFC managers is anticipated as follows:-

| | £ |
|---|---|
| Deputy Chairman and Chief Executive | 40,000 |
| 10 Top Managers (each) | 25,000 |
| Next 10 Top Managers (each) | 7,000/8,000 |
| 2,000 Middle Managers (each) | 1,500/1,600 |

(Source : Financial Times 20 October 1981)

This is expected to produce £3.57m and the Deputy Chairman and Chief Executive (Mr Peter Thompson) 'hopes that at least 60% of the remaining 24,000 staff will confirm their interest by investing in the new company through the use of £200 interest-free one year loans' (Financial Times 20 October 1981). Details of the investment by outside bodies (probably a consortium of banks) have not yet been announced, including whether any part of this investment will be in the form of an equity holding. The author is advised by NFC that the prospectus will be issued early in December 1981.

## 7.2. Financial Situation of the NFC

In 1979, the National Freight Corporation made a net profit of £2.0m, without receipt of subsidy payments of any nature. Thus, on face value, the organisation achieved its overall 'break-even' objective as laid down in the Transport Act 1968, even though, as a percentage of turnover, that profit was a very small amount (0.5%). However, part of that financial objective included making 'proper provision for the depreciation and renewal of

assets.' In that respect, NFC have recorded the fact that their depreciation charge in 1979 was £15.2m lower than the required replacement level, mainly in respect of vehicles and plant and equipment. Consequently, the 1979 result was not in line with the Government's financial objectives.

The same situation applied in 1978, when the net profit was only £0.3m, and the depreciation charge was £15.0m lower than replacement level. However, both years represented a considerable improvement on the results of the first years of operation, where subsidies were received (as noted earlier) in respect of the National Carriers Limited operations. Indeed, it should be noted that a net loss of £1.9m was sustained by the Corporation in 1969 after receipt of the NCL subsidy of £17m. Thus, the 1979 result was £21m better than the 1969 position.

The trend of financial results is given in Table 7.1. where it can be seen that the NCL subsidies totalled £42.7m in the years 1969 to 1973. Despite these subsidies, losses were sustained in the years 1969 to 1971 and only very small profits in 1972 and 1973. Largely as a result of the recession in 1974 and 1975 and the failure of a new French subsidiary company, large losses were sustained in the years 1974 to 1977 with the 1975 loss having been £31.0m. As noted in Section 7.1, it was the size of that loss which persuaded NFC management to speed up the pace and extent of the diversification programme to provide a return to profitability and produce a more robust business, capable of dealing more easily with any future recessions.

| | Profit/(Loss) After Interest | Including NCL Subsidy |
|---|---|---|
| | £m | £m |
| 1969 | (2.9) | 16.0 |
| 1970 | (1.2) | 13.4 |
| 1971 | (1.6) | 8.0 |
| 1972 | 1.2 | 3.7 |
| 1973 | 0.2 | 1.6 |
| 1974 | (15.8) | |
| 1975 | (31.0) | |
| 1976 | (15.3) | |
| 1977 | (10.8) | |
| 1978 | 0.3 | |
| 1979 | 2.0 | |

Table 7.1. NFC Profit and Loss Account Summary 1969 to 1979

(Source : NFC annual reports and accounts)

More immediately, however, NFC was assisted by Government, by the provision of cash flow grants which were authorised in the Transport (Financial Provisions) Act 1977. These grants amounted to £22m in 1976, £30m in 1977 and £20m in 1978. Additionally, in order to reduce the interest charge, the capital debt to the Government was reduced in 1978 from £153.1m to £100m under provisions contained within the Transport Act 1978. The commencing capital of the NFC (on 1 January 1969) amounted to £91.0m out of the total outstanding in 1978 before that action. This element was reduced to £50m in 1978 under these arrangements. However, it had originally been intended that this capital debt be repaid in 10 annual instalments commencing in 1976. Such repayments have been made in years 1976 to 1980 but they have been offset by further Government loans to the same value.

Returning to the 1979 result which was, as discussed above, a net profit of £2.0m, it should be noted that the Groups made a combined profit of £20.2m. This was before charging interest to the Department of Transport of £8.1m and extraneous items of £10.1m. These extraneous items included headquarter's expenses (£2.2m), leasing interest (£3.0m) and other interest not payable to the Department of Transport (£3.1m) as well as a number of exceptional features which were largely self-compensating. Thus, the low net profit of £2.0m cannot be said to have been due to exceptional items of expenditure. However, the NFC result was affected by the national road haulage strike in January 1979 and this is stated in the 1979 annual report and accounts to have reduced profits by between £4m and £5m in that year. Even allowing for this factor, however, the net profit in 1979 was well below the required level, i.e. allowing for replacement provision.

The distribution of the 1979 net profit figure over the Groups was as given in Table 7.2. Both the Extraneous Items and the Interest to the Minister of Transport have been allocated, by NFC, over the Groups.

It is clear from Table 7.2. that the net profit situation of each Group (apart from Pickfords) in 1979 was far from healthy in any normally accepted commercial sense, representing a poor percentage on turnover. The Roadline U.K. Group result was by far the worst. In their 1979 annual report and accounts, NFC described the Trading Profit of £20.2m as representing 12.9% of average net assets (12.8% in 1978 and 7.6% in 1977). This was certainly so, using the declared net asset values, but was

| | Turnover | Net Profit/(Loss) and percentage on Turnover | | | |
|---|---|---|---|---|---|
| | | Before Extraneous Items & Interest (Trading Profit) | | After Extraneous Items & Interest (Net Profit) | |
| | £m | £m | % | £m | % |
| BRS Group | 153.3 | 10.3 | 6.7 | 3.4 | 2.2 |
| National Carriers Group | 113.4 | 4.3 | 3.8 | 1.0 | 0.9 |
| Roadline UK Group | 56.0 | (0.6) | 1.1 | (5.0) | 8.9 |
| Special Traffics Group | 67.4 | 2.6 | 3.9 | - | - |
| Pickfords Removals and Travel Group | 32.0 | 2.6 | 8.1 | 2.2 | 6.9 |
| Other Groups/ Companies | 10.0 | 1.0 | 10.0 | 0.4 | 4.0 |
| | 432.1 | 20.2 | 4.7 | 2.0 | 0.5 |

Table 7.2. National Freight Corporation - Analysis of Net Profit/(Loss) 1979

(Source : NFC report and accounts, 1979)

not a very helpful statistic, except in a comparative sense. It did not allow for the increased value of some of the net assets (particularly land and buildings) and the fact that most of the extraneous items were legitimate, ongoing charges to the Trading Profit. There was more sense in leaving Interest to the Department of Transport out of that statistic, however, in that it could be compared with the 'dividend' distribution in a limited company.

Turning to the financial results for the nine months ended 30 September 1980, the Corporation made a trading profit of £10.3m, much less than the 1979 full year trading profit of

£20.2m. Interest paid to the Department of Transport amounted to £6.6m and extraneous items totalled £11.3m (including redundancy £7.3m). Consequently, a net loss of £7.6m was recorded, from which was deducted (in the appropriation account) a provision of £11.5m for costs that were expected to be incurred later in respect of the BRB decision to withdraw from the C & D parcels sector and proposed rationalisation of the parcels distribution network. Thus, the final trading position of the Corporation was worse than the 1979 result. This deterioration was ascribed to 'a period of savage economic recession.' The reductions in trading profits were sustained in three Groups - British Road Services, National Carriers and Roadline. The trading profits of the other three Groups improved slightly on an annualised basis.

The balance sheet as at 30 September 1980 (after extinguishing the capital debt of £100m, writing off goodwill of £5.5m and creating the new share capital) was as given in Table 7.3. It can be seen that the net value of the assets was recorded at £68m. However, on a current cost accounting basis, the net value was described in the 1980 report and accounts as £155.8m, the increase being related mainly to an increase of £94.2m in the value of fixed assets, particularly land and buildings. It will thus be observed that the 'going concern' value of £53.5m determined by the Government, in connection with the management 'buy-out' was substantially lower than the net current cost value of the assets as at 30 September 1980.

Finally, the author has attempted to obtain from NFC details

| | £m |
|---|---|
| Fixed Assets | 97.3 |
| Associated Companies | 3.5 |
| Trade Investments | 0.6 |
| | 101.4 |
| Leasing Equalisation Account | 11.9 |
| | 113.3 |
| Current Assets | 101.4 |
| | 214.7 |
| Deduct Current Liabilities | 101.7 |
| | 113.0 |
| Deduct Provisions (pensions, insurance and BRB withdrawal from parcels C & D) | 45.0 |
| | 68.0 |
| Financed by | |
| Share Capital | 5.0 |
| Share Premium and Reserves | 61.1 |
| Debentures and Loans | 1.0 |
| Minority Interests | 0.9 |
| | 68.0 |

Table 7.3. NFC Balance Sheet as at 30 September 1980

(Source : NFC annual report and accounts)

of the latest financial situation; in particular that related to year ended 30 September 1981. NFC have been reluctant to disclose details, not wishing to pre-empt the information to be provided in the prospectus to be issued in December 1981. However, the author has been led to understand that the result for year ended 30 September 1981 was a little better than that relating to nine months ended 30 September 1980.

# CHAPTER 8

# NATIONAL BUS COMPANY

It was made clear in Chapter 5 that the markets and culture of the National Bus Company (NBC) are considerably different to those of the National Freight Corporation and even, to some extent, the British Railways Board i.e. in respect of its Passenger business. These features have heavily conditioned the NBC approach to corporate planning and, in order to undertake the examination required in Chapters 13 and 15, it is intended in this chapter to supplement the information provided in Chapter 5 by briefly identifying the main features which describe the nature and size of the organisation and its financial situation.

## 8.1. The Nature and Size of the NBC

The National Bus Company was created on 1 January 1969, under Section 24 of the Transport Act 1968. On that date, it took over 65 companies undertaking local and longer distance bus services. It did not take over any municipal bus services. Some of the inherited companies had been in public ownership for some time, within the control of the Transport Holding Company, which also transferred some of its companies to the Scottish Bus Group. However, the Transport Holding Company had only recently taken over the Companies within the British Electric Traction Group which were then subsequently transferred to NBC. Additionally, in 1969 London Transport's 'Green Line' and 'Country' bus services were transferred to NBC.

Before NBC was formed it was clear that the bus companies were experiencing financial difficulties caused by declining patronage. It was pointed out by Pryke (1981) that 'Between 1963 and 1968 the undertakings which they (NBC and SBG) came to control lost 10% of their traffic' and the 'output per worker fell by 6%.' The purpose of forming the NBC was to enable the services provided by the companies to be continued as far as possible and rationalised. Some of the inherited companies were making losses and there was every possibility of major reductions in services being implemented by those organisations.

Since 1969, the National Bus Company has merged a number of the inherited companies as part of the rationalisation process. Consequently, the company structure is, in 1981, as depicted in Figure 8.1. It can be seen that there are 30 out-based operating companies responding to 4 Regions. Additionally, National Travel (NBC) Ltd responds direct to NBC headquarters. That company provides express bus services between major towns and cities, in competition with the British Railways Board and, to a minor degree, British Airways.

Each of the four Regions is headed by a Regional Director who is chairman of the board of each of the operating companies within his Region. The Regional directors report to the Chief Executive of the NBC headquarters management group - National Bus Management Ltd. This group, in turn, reports

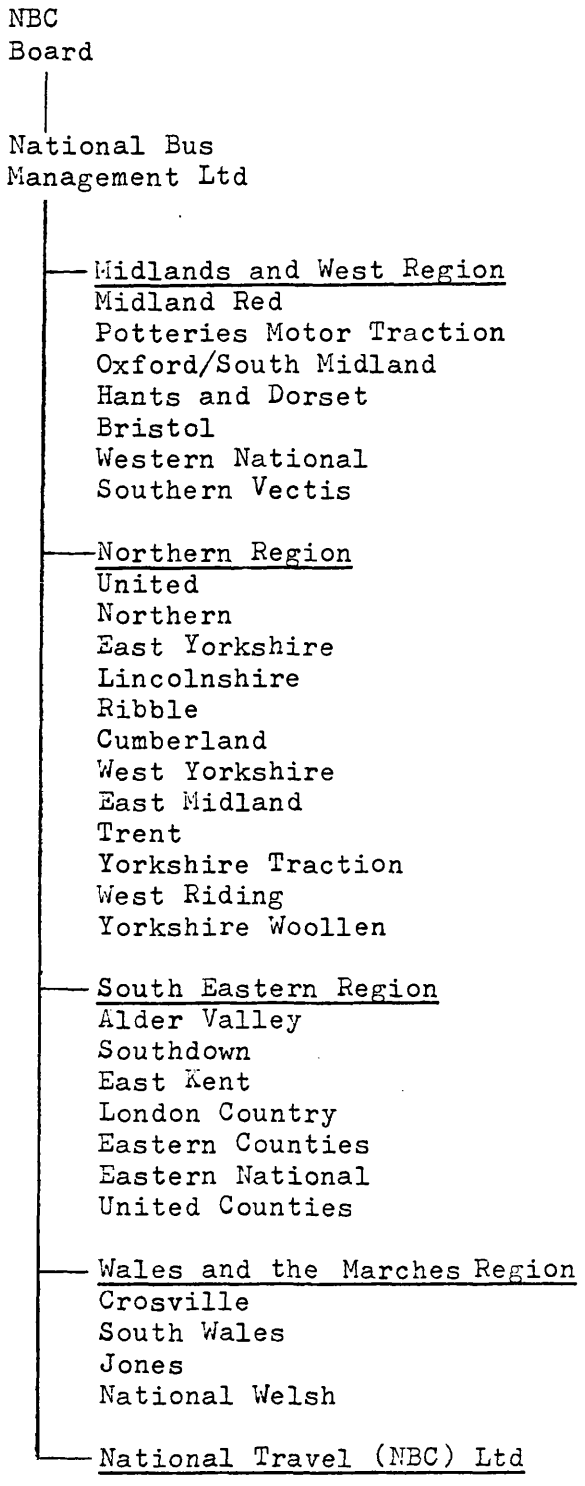
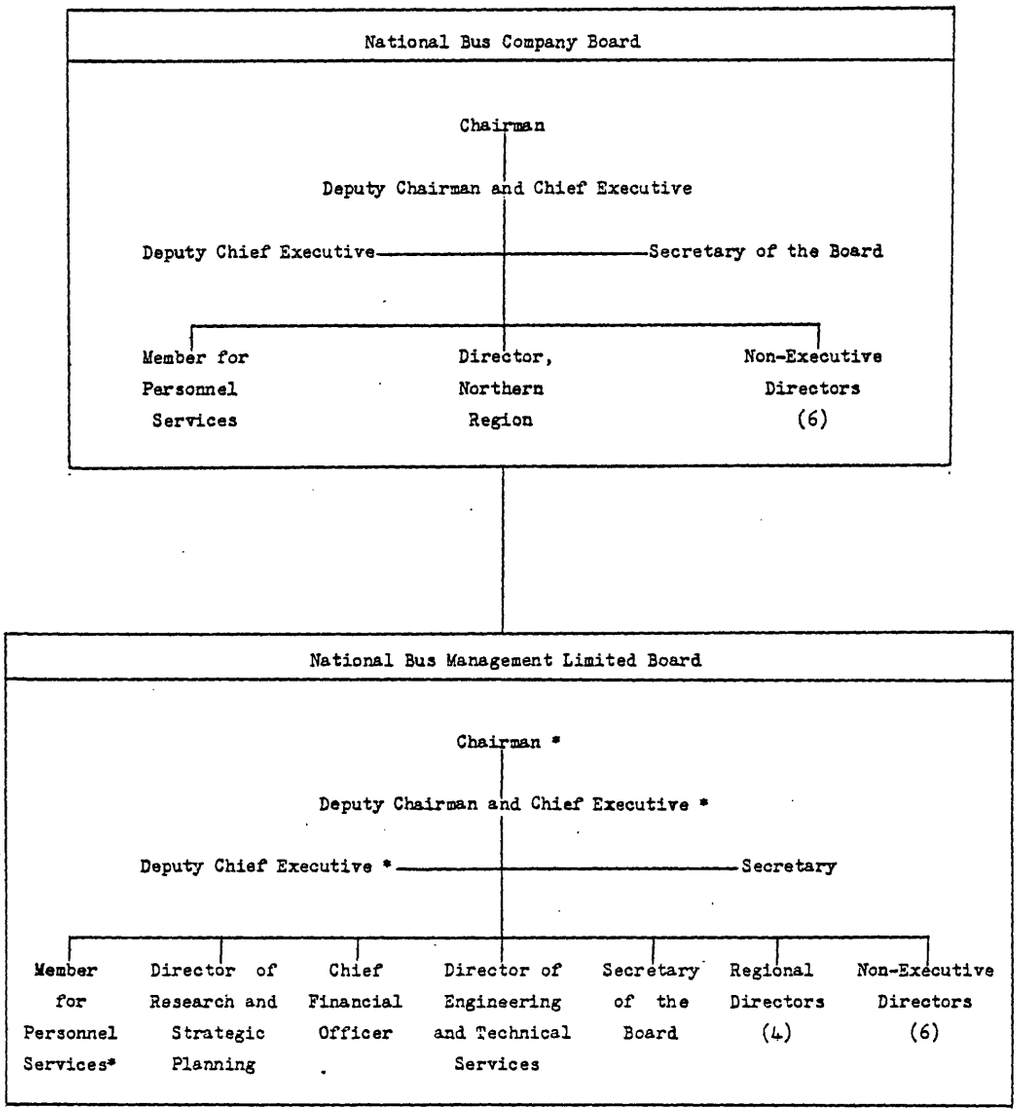



Figure 8.1. NBC Operating Companies

(Source : Discussions with NBC planners)

to the board of NBC. The headquarters organisation structure is given in Figure 8.2.

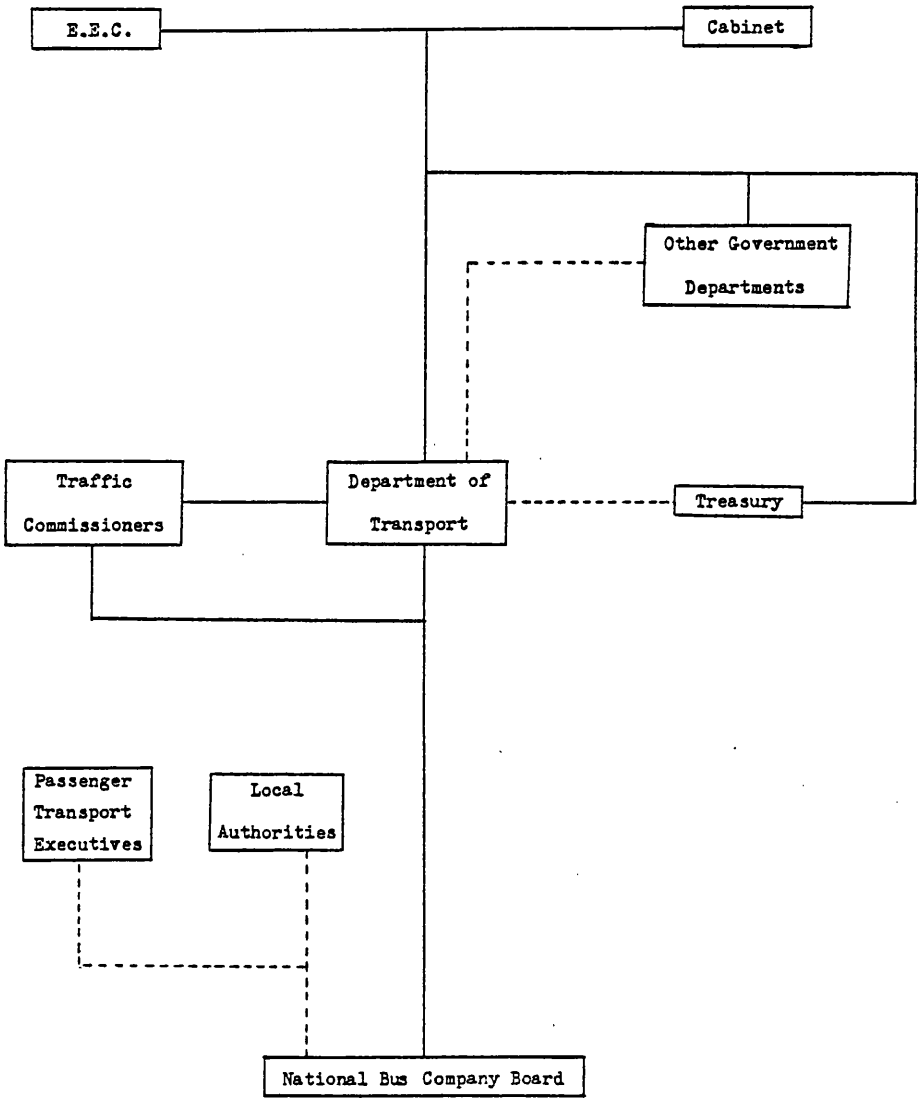



N.B. Those officers marked * are also members of the National Bus Company Board under the same titles. This also applies to one of the Regional Directors.

Figure 8.2 - National Bus Company Headquarters Organisation Structure.
(Source: Discussions with National Bus Company Planners).

The structural relationships with Government are given in Figure 8.3. Whilst the NBC board responds to the Secretary of State for the Department of Transport (through which contact is made with other main Government departments), it receives many directions from the Traffic Commissioners. These arrangements stemmed originally from the Road Traffic Act 1930 (with some relatively minor subsequent amendments) but were varied considerably by the Transport Act 1980. Prior to the 1980 Act, the Traffic Commissioners were able to restrict competition under a system of road service licences, and determine fare levels. The 1980 Act abolished road service licences for express services and made it easier for applicants to obtain road service licences for other services restricting, at the same time, the power to 'attach thereto conditions as to fares.'

Prior to 1980, the road licencing system (including control of fare levels) was a significant feature in restricting competition with the onus of proof being on the applicant, i.e. the potential new operator, to demonstrate at a Traffic Commissioners Court that a proposed service would be in the public interest. Since the introduction of the 1980 Act in October 1980, there has been no control by the Traffic Commissioners over express services or fares and this has given rise to a considerable increase in competition and generally reduced fare levels. These have also impacted on the fare levels operated by the BRB as noted in Section 6.3. of Chapter 6. A number of the main private operators banded




Notes:

1 Unbroken lines indicate direct responsibility.

2 Broken lines indicate spheres of influence.

Figure 8.3 - National Bus Company - Main Relationships with Government.

(Source: Discussions with National Bus Company Planners.

together early in 1981 to form British Coachways intending to run fast, efficient express motorway services. However, as a consequence of NBC price reductions (and more latterly BRB price reductions on selected services), there are signs that British Coachways is making losses and the individual operators are gradually pulling out (Sunday Times, 8 November, 1981).

NBC planners have advised the author that NBC is well satisfied with these developments in the express services field and have been able to increase both patronage and profits as a result of the reduced fares. They consider that NBC has an advantage over their new competitors in that they have a good network of depots and can spread their overheads over all of their services.

They are considerably less happy with the potential impact of the 1980 Act on their local services. Under the new arrangements, the onus of proof in a Traffic Court, in respect of a potential new service by any operator lies with the other (mainly existing) operators who, if they wish to oppose an application, have to demonstrate that the new service is against the public interest. Additionally, apart from reserve powers, the exercise of which would need to be 'essential in the interests of the public', the Traffic Commissioners would not exercise any control over fares. The Chairman of NBC, Lord Shepherd, has recently complained (NBC News Release, 14 October 1981) about the potential impact of this development as follows:-

'We were set free by the 1980 Transport Act to use commercial

judgement in the operation of Express Coach services. We rose to the challenge presented by the new Act, and the efforts of National Express have not only been successful in increasing passenger volume, but they have also resulted in a significant financial contribution to keep some local bus services running - services which, paradoxically, could be threatened by another clause of the same Act.'

He added that 'for 50 years bus operators had practiced internal cross-subsidisation with profitable routes propping up socially desirable loss makers. This had been made possible by sensible regulations by the traffic commissioners, and with the general approval of both local and central Government.'.....'There is no doubt that many bus routes at present aided by internal cross-subsidy are under severe threat from increased competition for the more profitable elements of our business.' This conclusion was evidenced by recent decisions of the Traffic Commissioners which 'indicated that it would be impossible for objectors to demonstrate at hearings that any new application would be against the public interest.'

The net consequence of this was described as creating a situation where cross-subsidisation would need to be abandoned and, in order to meet financial targets, it would be necessary to price 'according to the volume of business and the cost of operating individual services - or even sections of services, or those at specific times of day, days of the week, or for specific groups of passengers. This will inevitably mean that the present high level of individual cross-subsidisation will disappear. Such

routes which cannot be justified commercially will only be retained by substantial increases in County revenue support, and in these difficult times, this seems an unlikely course of action. I am not saying that all this will happen overnight. The real danger is that the decline in services, especially in the remoter less populated areas, could be faster than we have seen in recent years, and would mean that our passengers in those areas are going to suffer.'

Continuing with an examination of information given in Figure 8.3, the relationships with the local authorities have been of particular significance in recent years and have stemmed from a number of significant events. The most important was established originally under the Local Government Act 1972 which enabled non-metropolitan county councils to provide deficit grants in respect of mutually agreed local services. This Act also required the county councils to prepare annually Transport Policies and Programmes (TPP's) which represent broad five-year transport plans for each county, stipulating the planned expenditure and service changes of all transport operators within the county including the district council i.e. municipal bus services. Given that any grants provided to operators (bus and rail) were included in the TPP and that the content of the TPP was acceptable to the Department of the Environment (now Department of Transport), these grants would qualify for partial reimbursement by Central Government under a Transport Supplementary Grant.

These deficit grants to NBC have continued since 1975 (see

Section 8.2.) but the enabling legislation is now contained within the Transport Act 1978, which, additionally, required the non-metropolitan county councils to prepare, annually, five year public transport plans in conjunction with the operators and to enter into agreements with the operators in respect of the 'provision or retention and financing of services and facilities which are required by the plan but would not, apart from such agreements, be available.'

Clearly, whilst neither NBC nor its companies are executively responsible to the non-metropolitan county councils, the councils exert considerable influence over the content of the plans of the companies and thus the NBC corporate plans.

Further, in recent years, NBC have entered into service coordination agreements with local authorities involving joint services, pooling and distribution of receipts. These arrangements have involved the PTE's, and non-metropolitan county and district councils. Additionally, and again as a consequence of the 1978 Act, NBC has entered into agency agreements with non-metropolitan county and district councils whereby single coordinated services are run under the aegis of the county council. All of these arrangements serve to require a close relationship between NBC and local authorities in the planning and operation of services.

In respect of laid down Government objectives, similarly to the National Freight Company, the National Bus Company is required, under the terms of the Transport Act 1968, to

'secure that the combined revenues of the authority and the subsidiaries taken together are not less than sufficient to meet their combined charges properly chargeable to revenue account, taking one year with another.' In this respect they were also required to 'secure that their subsidiaries charge to revenue account in every year all charges which are proper to be made to revenue account, including, in particular, proper provision for the depreciation and renewal of assets.' Whilst in their annual reports and accounts only historic cost depreciation has been charged in the profit and loss account, NBC have always recorded as a note to the accounts (even prior to current cost accounting requirements) the additional depreciation which should be allowed for on a replacement basis. They have recorded this figure under what they have described to the author as a correct interpretation of the objective given above.

More recently (Hansard 22 May, 1981 and as a consequence of Cmnd 7131) the Government have announced that NBC will be expected to work to an objective of achieving a current cost operating surplus before interest of £18.5m, in 1980 outturn prices, by 1985 and various milestones (to be agreed) for each of the intermediate years. The NBC planners have advised the author that there are extreme doubts as to whether this objective can be achieved. Additionally, as part of the same announcement NBC is required to achieve in 1981 a 3% reduction (in real terms) in operating costs per vehicle mile. This latter objective is considered by NBC planners to be more attainable.

To consider the nature and size of NBC further, it is considered useful to provide some overall physical (and some financial) statistics. These will relate to the year ended 31 December 1980. Since the individual companies, with the exception of National Travel (NBC) Ltd., undertake the same activities, there would be little point, in this instance, of providing physical statistics in respect of each operating company. The same applies in respect of the Regions and, in any case, NBC do not prepare Regional accounts/physical facts reports.

Starting with the level of turnover, this amounted to £580.3m in 1980, including grants and other financial arrangements which will be explained in Section 8.2. These receipts were in respect of 1,649 million passenger journeys of which all but 62 million were related to stage-carriage services. It will be recalled that details of the 1979 NBC passenger journeys and passenger miles compared with other bus operators were provided in Chapter 5. There it was established that, outside of the large cities and towns (where LTE, PTE and other local authority municipal services dominate), NBC provides the vast majority of the stage-carriage bus services in England and Wales. This situation, which was based on 1979 data, also obtained in 1969 although, since that time, all public operators have experienced a reduction in patronage. This reduction, measured in terms of passenger journeys, is identified in Table 8.1, where it can be be seen that the private operators alone (because of growth in the private hire and contract market) have managed to record an increase in passenger journeys.

| | Million | |
|---|---|---|
| | 1969 | 1979 |
| Public Operators | | |
| NBC | 2835 | 1795 * |
| LTE | 1589 | 1234 |
| PTE | 2827 | 1993 |
| Municipal | 1456 | 1019 |
| SGB | 558 | 350 |
| | 9266 | 6391 |
| Private Operators | 557 | 709 |
| Total | 9823 | 7100 |

* 1649 million in 1980

Table 8.1. Passenger Journeys by Buses and Coaches in Great Britain in 1969 and 1979 (Source - 'Transport Statistics Great Britain 1969 - 1979', HMSO, 1980 and NBC Annual Report and Accounts 1980)

The main physical facts relating to NBC operations are given in Table 8.2. Here, the results in respect of year ended 31 December 1980 are compared, as far as possible, with the equivalent 1969 figures. Although there have been improvements in recent years, the percentage reductions in vehicle miles and resources between 1969 and 1980 have not kept pace with the reductions in passenger journeys. In particular, there has been a 41.8% reduction in passenger journeys, compared with an 18.9% reduction in vehicle miles, a 24.5% reduction in public services vehicles and a 27.3% reduction in staff numbers during the period 1969 to 1980.

This disparity has had a considerable impact on the financial results since 1969 as will be made clear in the next section which deals with the financial situation of NBC. Before moving on to that section, however, mention needs to be made of

| | Year | |
|---|---|---|
| | 1969 | 1980 |
| Vehicle Miles (Millions) | | |
| Stage Carriage Services | | |
| One-person operated | | 457 |
| Crew operated | | 86 |
| | | 543 |
| Other Services | | 95 |
| | 787 | 638 |
| Public Service Vehicles (Nos) | | |
| Double deck | | 5156 |
| Single deck | | 10430 |
| | 20637 | 15586 |
| Employees (Nos. at year end) | 80344 | 58399 |

Table 8.2. NBC Selected Physical Facts 1969 and 1980

(Source : NBC Annual Reports and Accounts)

the prospect of denationalisation of the Company. This was announced by the Government in the 'Queen's Speech' on 3 November (Hansard) but it is considered by NBC planners that it will be difficult for the Government to proceed with these proposals because of the losses (before deficit grants) incurred in respect of many local services and the difficulties of isolating the resources of the express services which share the same depots and garages as the local services.

## 8.2. Financial Situation of NBC

On the transfer of the inherited assets to the newly formed National Bus Company on 1 January 1969, the Government created a capital debt (to the Department of the Environment) in the books of the NBC to cover the assessed value of the assets.

After charging interest on this capital debt and depreciation, on an historic cost basis (£9.5m), a profit of £0.8m was achieved by NBC in the first year of trading. At that time, there were no grants from Local Authorities in respect of deficits on selected local services.

By 1980 and, as a result of the declining traffic levels noted earlier, this profit had been converted to a loss of £11.8m after receipt by NBC of Local Authority deficit grants totalling £41.3m. This loss is recorded in a summary of the NBC profit and loss account which appears as Table 8.3.

| | £m | £m |
|---|---|---|
| Receipts | | |
| Stage carriage operations | 385.7 | |
| Grants under Section 1, Transport Act 1978 | 41.3 | |
| Payments by local authorities in respect of concessionary fares | 28.9 | |
| PTE reimbursements of expenses under operating or agency agreements | 34.4 | |
| District Council reimbursements of expenses under operating agency agreements | 1.3 | |
| | 491.6 | |
| Other operations | 88.7 | 580.3 |
| Working Expenses | | 586.2 |
| Working Profit/(Loss) | | (5.9) |
| Other Income | | 12.0 |
| | | 6.1 |
| Corporate Expenses | | 0.7 |
| Profit/(Loss) before Interest | | 5.4 |
| Interest | 17.1 | |
| Taxation | 0.1 | 17.2 |
| Profit/(Loss) after Interest | | (11.8) |

Table 8.3. NBC Profit and Loss Account 1980

(Source : NBC Annual Report and Accounts 1980)

In fact, the loss in 1980 of £11.8m was a considerable turn around from the 1979 situation which was a profit of £6.2m after receipt of Local Authority deficit grants totalling £37.2m. This was explained in the 1980 annual report and accounts as being due to the 'failure of revenue grants to keep pace with inflation, together with the fall in passengers owing to the recession.'

To understand the 1980 result and compare it with the opening result in 1969, it is necessary to appreciate four special features. The first is that, since 1975, NBC has been in receipt of the deficit grants from Local Authorities which, as noted earlier, were designed to cover the losses on selected services which the Authorities would rather subsidise than see curtailed or withdrawn. The first grants received in 1975 totalled £6.6m. It has already been noted that £41.3m was received in 1980. The second is that, under the Transport Act 1978, County Councils were empowered to pay to transport operators grants in respect of concessionary fares granted 'in favour of special categories of persons.' These grants totalled £28.9m in 1980. The third is that Section 33 of the Transport Act 1968 permitted NBC to claim reimbursement of fuel duty. This has applied in all years and amounted to £27.9m in 1980 (£7.2m in 1969) which was credited to working expenses. The fourth is that Section 32 of the same Act provided that NBC should receive Government grants towards the purchase of new buses. The amount receivable in 1980 was £24.6m (£2.0m in 1969) which was set against bus acquisitions in that year totalling £32.2m included within a total investment of £39.8m.

It should also be noted that the 1980 loss of £11.8m was arrived at after charging historic depreciation of £14.5m. However, this depreciation charge was £21.9m less than that required on a current cost accounting basis i.e. to provide for replacement of the assets under the financial objective set in the Transport Act 1968. Indeed, this was the major feature of the 1980 current cost profit and loss account adjustments, the historic cost loss of £11.8m being converted to a current cost loss of £34.7m.

Turning to the 1980 balance sheet, this records an increase in the debt to the Secretary of State of £52.4m (over the opening debt in 1969 of £97.6m) which was in the form of loans from the National Loans Fund. This has not resulted to any significant degree from losses since, between the years 1969 to 1980, the profits after interest have been sufficient to offset the losses which were incurred. This can be seen in the trend of the net results as given in Table 8.4.

Instead, the increased debt has resulted mainly from funding investment, beyond the levels financed by historic depreciation and bus grants. As a consequence of the increased capital debt and refinancing of the original capital debt of £97.6m, the interest charge was £17.1m in 1980 compared with £4.8m in 1969. In the 1980 annual report and accounts, the Chairman of NBC complained about this increasing interest 'burden' describing the capital structure as 'unsuitable' and citing the views of the Eighth Report of the Select Committee on Nationalised Industries 1977/78 in support of this contention.

| | Net Result | |
|---|---|---|
| | Profit | (Loss) |
| 1969 | 0.8 | |
| 1970 | | (8.1) |
| 1971 | | (0.4) |
| 1972 | 5.5 | |
| 1973 | 2.1 | |
| 1974 | | (12.3) |
| 1975 | | (19.0) |
| 1976 | 4.4 | |
| 1977 | 9.6 | |
| 1978 | 17.7 | |
| 1979 | 6.2 | |
| 1980 | | (11.8) |

Table 8.4. NBC Profit and Loss Results 1969 to 1980

(Source : NBC Annual Reports and Accounts)

The reserves at the end of 1980 stood at £60.2m on an historic cost basis, including a property revaluation reserve of £54.9m. However, the working capital situation was not satisfactory, being a net liability of £3.4m. On a current cost basis, fixed asset values were increased by £245.6m and, with other relatively minor changes, this increased the reserves to £304.3m.

Finally, turning to the external financing limits which have concerned all nationalised industries since the fiscal year 1979/80 (Cmnd 6440), these were set as follows:-

| | 1979/80 | 1980/81 | 1981/82 |
|---|---|---|---|
| | £m | £m | £m |
| New bus grant and local authority support | 58 | 66 | 60 |
| Net borrowing | 24 | 19 | 15 |
| | 82 | 85 | 75 |

The 1970/80 and 1980/81 results were external financing requirements of £80m and £85m, respectively. The limit for 1981/82 has been subject to comment (1980 Annual Report and Accounts) by the Chairman, as follows:-

> 'While NBC has been able in the last two years to stay within the cash limits, it is possible that the limit in 1981-82 will cause more problems. Should trading conditions not improve and if no relief is given from the burden of NBC's inappropriate capital structure, it will be necessary to make further cuts in the services provided in order to keep within the limits.'

It is possible that some change to the funding arrangements of NBC will be made in 1982 as a result of a recently announced study commissioned by the Department of Transport. The Secretary of State has appointed a firm of consultants, Touche Ross, to investigate the financing arrangements of NBC with particular reference to 'the relationship between the capital debt and interest charges and the earning capacity of the 35 subsidiary local bus companies, how the present arrangements affect the local companies' operating or financial decision-making, including their relations with local authorities, and the prospects for the companies within the present financial regime' (Financial Times,14 October,1981). The Touche Ross report is expected to be made available to NBC and the Government early in 1982.

# CHAPTER 9

# BRITISH AIRWAYS

To conclude Part 2 and facilitate the proposed examination of the corporate planning process and procedures of British Airways (BA), it is necessary to provide further background details of that organisation. Like the other three organisations covered in this research, this information supplements that already provided in Chapter 5 and is concerned primarily with the nature and size of British Airways and its financial situation.

## 9.1. The Nature and Size of BA

British Airways or, more correctly, the British Airways Board was created on 1 April 1972, when it took over the two State owned undertakings - British Overseas Airways Corporation (BOAC) and British European Airways (BEA). The takeover was undertaken following the recommendations of the 'Edwards Committee' in 1969 (Cmnd 4018) and it was originally intended that the British Airways Board would act as a holding company which would direct the operations of the two separate organisations (BOAC and BEA) and make some economies of scale, particularly in the area of computer systems, including a common reservation system. In 1973, contrary to the Edwards Committee recommendations, the board of BA decided to merge the two companies intending, as a result of this, the creation of greater operating flexibility, some rationalisation of services and reductions in overhead costs. That process commenced in 1974 but was not completed until 1976.

The enabling legislation for the creation of the British Airways Board was contained within the Civil Aviation Act 1971. However, the relevant provisions within that Act, together with those within the Air Corporations Act 1967 and the Air Corporations (Dissolution) Order 1973, were consolidated in the British Airways Board Act, 1977. Thus, since 1977, the British Airways Board has been constituted by and operates under the terms of the 1977 Act. This Act permits British Airways to operate air transport services (passenger and cargo - including mail), whether on scheduled services or charter terms, in any part of the world.

The main activities of British Airways are conducted by the British Airways Board as an operating company but there are also a number of important 'subsidiary' companies, which are brought together for management information and control purposes into groups. The group and company structure is given in Figure 9.1. wherein it will be observed that there are eight groups, some of which contain companies which are based outside of the United Kingdom. It will be seen in the following paragraphs that the Airlines Group is by far the largest and the British Airways Board itself is the single most significant operating company within that group.

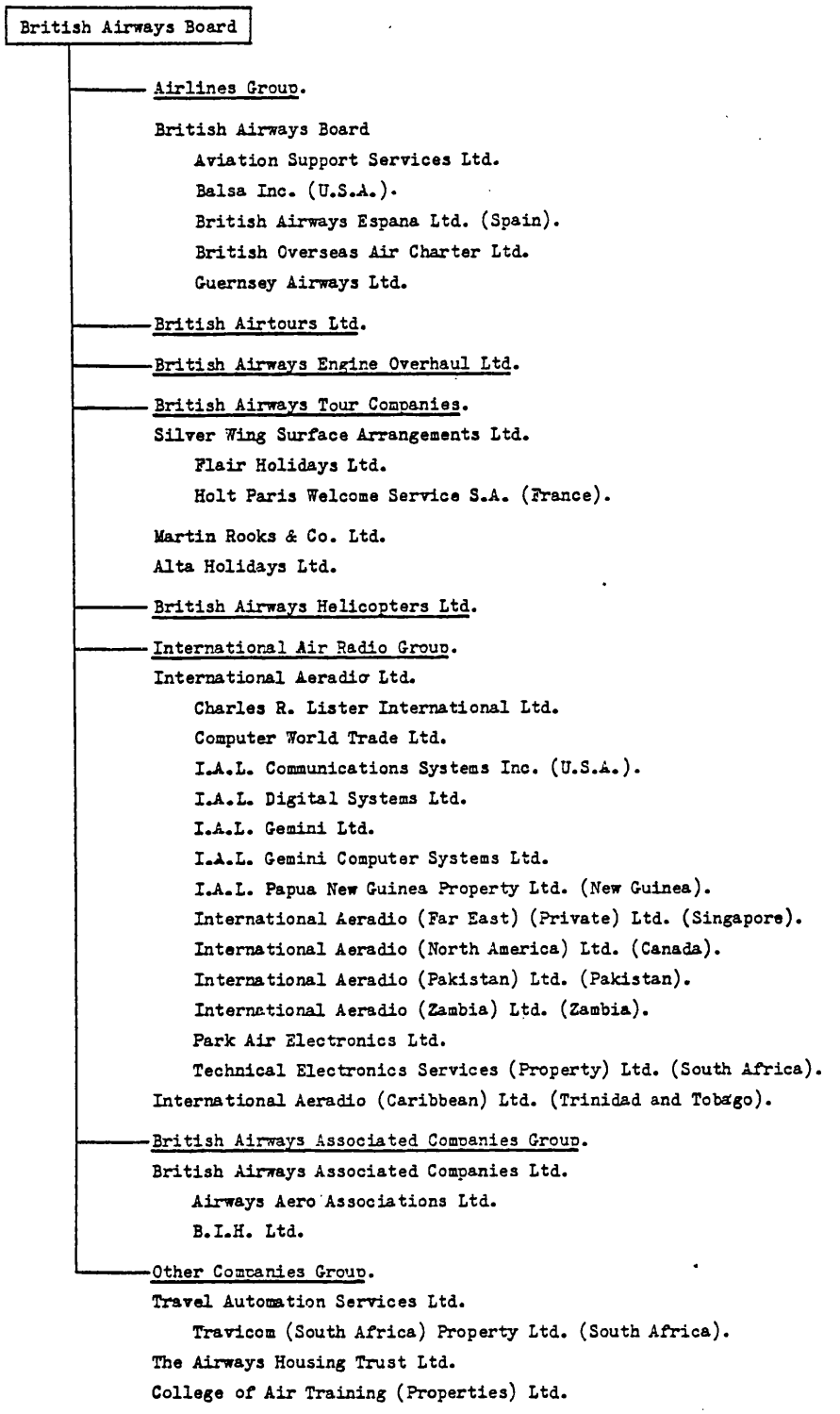



Figure 9.1 - British Airways - Group and Company Structure.

(Source: British Airways Annual Report and Accounts 1980/1981).

The Board membership and executive management structures of BA are given in Figure 9.2. The managing director of British Airways Engine Overhaul Ltd. reports to the Engineering Director who is chairman of that company. The managing directors of the two primary British Airways Tour Companies (Silver Wing and Martin Rooks), British Airways Helicopters Ltd., British Airways Associated Companies Ltd. and International Air Radio Ltd. report to the Director of Economic Development. The Airlines Group is managed by five General Managers of route divisions, each reporting to the Director, Commercial Operations. The route divisions are:-

a) Northern Routes

b) Southern Routes

c) Eastern Routes

d) Western Routes

e) United Kingdom and Eire

The managing director of British Airtours also reports to the Director of Commercial Operations and, in addition to his 'air tours' responsibilities, he administers that part of the Airlines Group activities which are dealt with at Gatwick Airport.

The 'Executive Management' team is chaired by a Chief Executive who is also one of two Deputy Chairmen. He is supported by ten executive directors, each with functional responsibilities covering the entire organisation. Five of these directors are members of the main board.

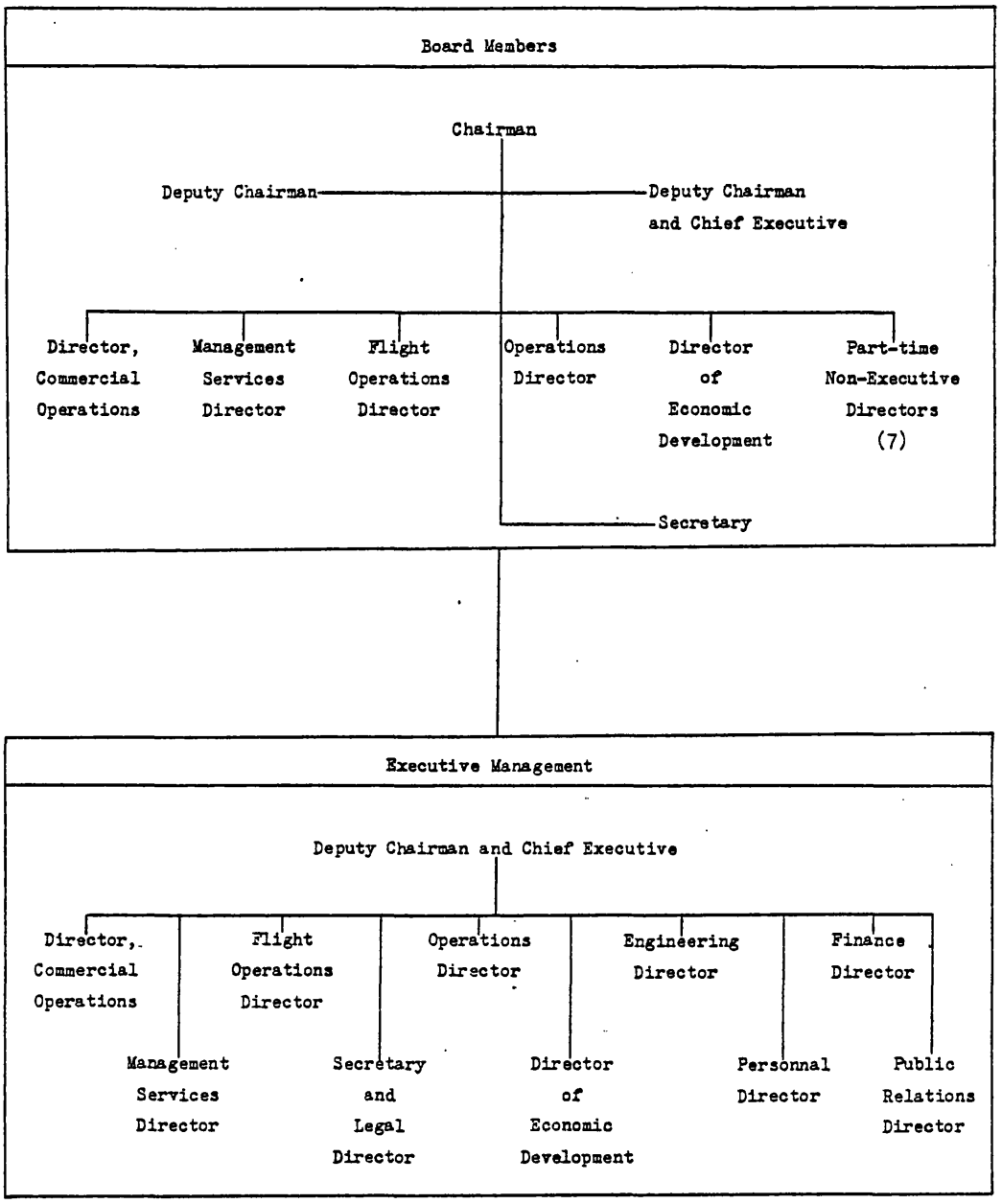



Figure 9.2 - British Airways - Board Membership and Executive Management Structure.

(Source: British Airways Annual Report and Accounts 1980/1981).

Unlike the other three organisations covered in this research, the board of British Airways is not accountable to the Secretary of State for the Department of Transport but to the Department of Trade. The Secretary of State of that Department appoints all board members up to a maximum of 15 allowed for in the British Airways Board Act 1977. Under the Act, he also has the power to

a) give directions to the board in relation to any matter appearing to him to affect the national interest (e.g. purchase of aircraft manufactured in the United Kingdom)
b) direct the board to dispose of any shares or stock held by BA
c) direct the board to discontinue, restrict or dispose of any part of the organisation.

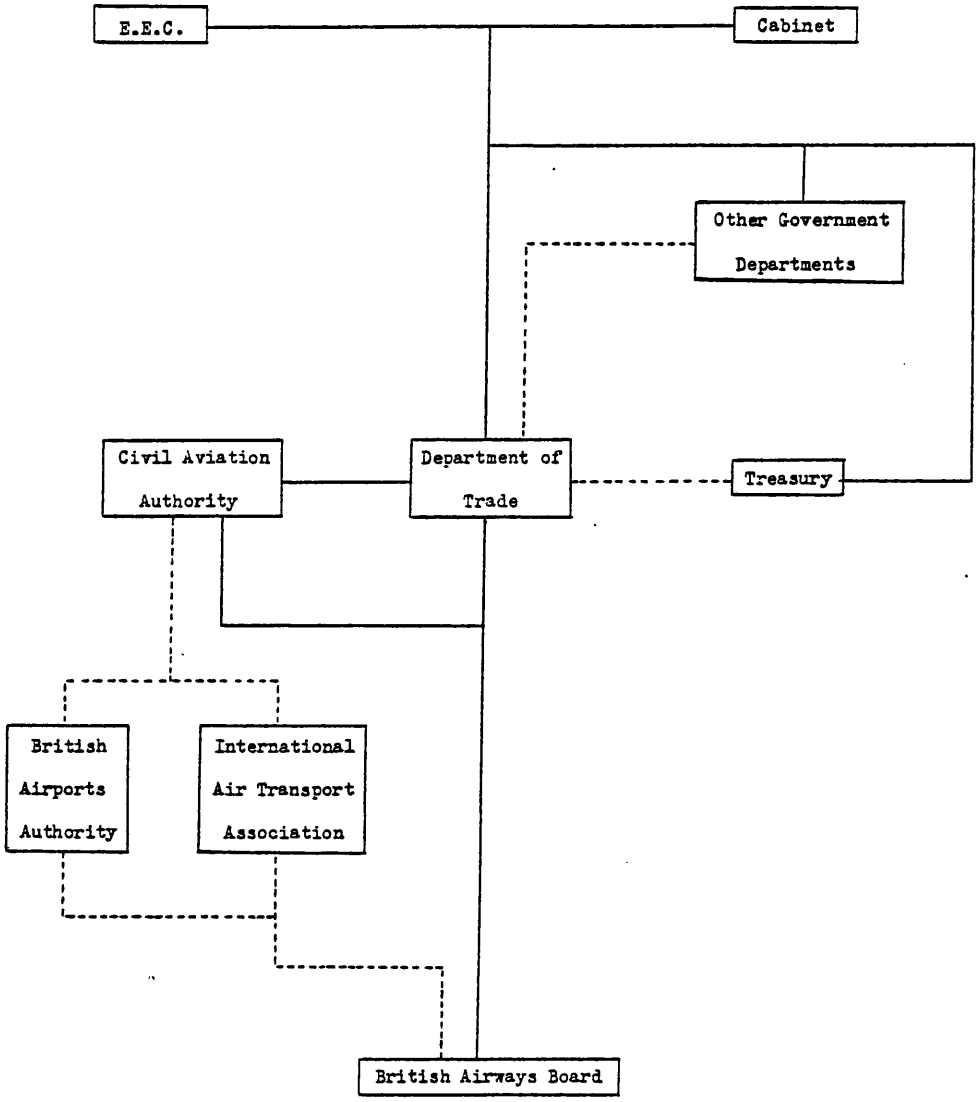
Under the terms of the Civil Aviation Act 1971, British Airways was required to earn sufficient profit after interest and taxes to produce a cash flow sufficient to fund its asset replacement programme and to pay an appropriate return on its Public Divident Capital. The board of British Airways have considered that it has been and remains generally accepted by Government that this objective is for achievement over the business cycle. Thus, in some years, the profit might be better than the objective and, in other years, it might be worse. The British Airways Board Act 1977 did not stipulate any changes to this basic objective but, in common with all nationalised industries, cash limits and other additional objectives were to emerge later. Details will be provided in Section 9.2.

The Government and other bodies to which British Airways responds are given in Figure 9.3. It will be observed that, apart from direct responsibility to the Department of Trade, the board of British Airways also has direct responsibility to the Civil Aviation Authority. The Department of Trade is responsible for civil aviation policy much of which results from international agreements which are largely in the form of bi-lateral route agreements. Under the overall control of the Department of Trade, the Civil Aviation Authority has the power to direct British Airways in the areas of the granting of route licences, safety standards (including operators' certificates), air traffic control and the setting of fares. It also charges BA (and other airlines) with fees for air navigation services.

Until 1969, when it was overtaken by United States 'anti-trust' legislation, an intenational system of price fixing, relating to almost all of the bi-lateral route agreements, existed through 'traffic conferences' held between the main international airlines under the auspices of the International Air Transport Association. That association also enabled the international airlines to discuss technical matters, a process which still continues.

This price fixing arrangement has been commented on by Pryke (1981) as follows:-

'The result might simply have been monopoly pricing and excessively high profits. However, this did not happen partly because most international airlines are in public ownership, and have had little incentive to maximise profits, and partly because a policy of crude profit maximisation would ultimately have led to the withdrawal of the privileges and protection which governments had conferred. What happened in practice was




Notes:

1 Unbroken lines indicate direct responsibility

2 Broken lines indicate spheres of influence.

Figure 9.3 - British Airways - Main Relationships with Government and Other Bodies.

(Source: Discussions with British Airways Planners).

that the flag-carrying airlines, whether in public or private ownership, came to see their role as the provision of a high quality service. In this way they were able, while avoiding price competition, to engage in rivalry; they provided themselves with a raison d'etre; and were able to satisfy politicians and airline users that they were providing something in return for the exclusive rights which they possessed and the high prices which they charged.

In order to supply a high quality service British Airways and other carriers have done their best to provide frequent services; to maintain them throughout the year; to ensure that a seat is available when it is wanted; to fly to a large number of destinations; to avoid arriving or departing at inconvenient times; to keep seating densities low; and to employ an ample number of staff at terminals and on cabin duties. One obvious consequence (of the first four factors) is that scheduled airlines have been put to the expense of supplying a large amount of capacity which remains unfilled. Some restriction on the provision of extra capacity should have resulted from the partnership agreements which were frequently concluded between the airlines on a particular route.'

However, since 1969 the situation has changed dramatically and fares have been generally related much more closely to market forces. Although price levels still require the approval of the Civil Aviation Authority, the emphasis is now on competitive (and much lower) fares, some of which are converted through the CAA into bi-lateral agreements tied in with the bi-lateral route agreements.

A further significant relationship exists between BA and the British Airports Authority (BAA). The latter organisation operates the main airports within the United Kingdom, charging BA and other airlines landing fees for the use of its airport facilities.

Returning to the group structure given in Figure 9.1, it is considered useful to examine briefly each of the groups in turn to identify their nature and sizes. As noted earlier,

the Airlines Group is by far the largest. It provides scheduled and some non-scheduled air services both internationally and within the United Kingdom. The turnover in year ended 31 March 1981 totalled £1,704m, of which £1,692m was related to scheduled services and £12m to non-scheduled services. As noted in Chapter 5, during the nine years which have elapsed since the formation of British Airways there has been a substantial growth in traffic carried by British Airways in its scheduled services.

Details of this growth are given in Table 9.1, where it can be seen that passenger miles have increased by 124% and tonne miles of mail and freight by 75% and 85%, respectively. However, it will also be observed that there has been a substantial increase in productivity (in terms of asset utilisation) in that the number of passenger seat miles has only increased by 63%. Additionally, available tonne miles (payload capacity of the aircraft multiplied by miles flown) has increased by 75% compared with a 117% increase in actual tonne miles. This has been brought about partly by aircraft replacements which have provided an increased average aircraft capacity preventing an increase in flights and hours flown. Additionally, despite the increase in average aircraft capacity, there has also been growth in the average passenger load factor (17%) and the average overall load factor (24%).

The bulk of the non-scheduled air services are provided by British Airtours Ltd. which is the 'charter' arm of British Airways. Similar volume of business statistics are not

| | Year Ended 31 March | | |
|---|---|---|---|
| | 1972 * | 1981 | Increase |
| | £m | £m | £m |
| Scheduled Services | | | |
| Receipts - Passengers and Baggage | 299.3 | 1489.5 | 398 |
| - Mail | 21.5 | 41.0 | 91 |
| - Freight | 41.9 | 161.7 | 286 |
| - Total | 362.7 | 1692.2 | 367 |
| | Millions | Millions | |
| Passenger Miles | 11,125 | 24,903 | 124 |
| Seat Miles | 20,763 | 33,796 | 63 |
| Tonne Miles - Mail | 58.6 | 102.5 | 75 |
| - Freight | 333.8 | 618.8 | 85 |
| - Total (incl Passengers) | 1,380.9 | 2,989.9 | 117 |
| Available Tonne Miles | 2,813.8 | 4,927.8 | 75 |
| | % | % | |
| Passenger Load Factor | 53.6 | 62.6 | 17 |
| Overall Load Factor | 49.1 | 60.7 | 24 |

* This refers to the result of the merged companies which formed BA

Table 9.1. British Airways - Scheduled Services Volume of Carryings

(Source : BA annual reports and accounts)

published but the turnover of this company amounted to £49.7m in the year-ended 31 March 1981, all of which was related to non-scheduled services. The equivalent figure in the year ended 31 March 1973 when the company traded as BEA Airtours Ltd. was £8.6m. Allowing for inflation (using the retail price index) this becomes £28.8m in 1980/81 prices. Thus the growth of this company has been about 72%.

Details of the primary operating statistics of what is described by BA as the total 'airlines activity' (i.e. the Airlines Group and British Airtours) are given in Table 9.2. Here it can be seen that the increase in available tonne miles since 1972 (70%) has not been accompanied by similar changes in revenue hours flown (decrease of 15%), revenue aircraft miles (decrease of 7%), revenue stage flights (decrease of 26%) or staff numbers (decrease of 2%). Additionally, there has been little change in the number of aircraft owned, which totalled 181 on 31 March 1981. This difference has been brought about by the increased average aircraft capacity and, to a limited extent (9%) increased average speeds. Both of these factors have been related to aircraft replacements, as noted earlier. Thus, on the evidence so far provided, it is clear that British Airways have, since 1972, been able to obtain considerable growth in their scheduled and non-scheduled airline carryings whilst, at the same time, making substantial improvements in productivity, measured in terms of asset and manpower utilisation.

Moving to British Airways Engine Overhaul Ltd. (BEOL), the primary task of this subsidiary is to undertake the major overhauls of British Airways aircraft engines. However, it also does similar work for other airlines which, in year ended 31 March 1981, amounted to £25m out of a total turnover of £57m. At the end of March 1981, BEOL employed 1,278 staff.

The British Airways Tour group of companies is described by BA as the second largest air-package tour operator in the United

| | Year Ended 31 March | | |
|---|---|---|---|
| | 1972 | 1981 | Change % |
| Available Tonne Miles (millions) | 3018 | 5122 | 70 |
| Revenue Hours Flown (000's) | 523.2 | 447.0 | 15 |
| Available Tonne Miles per Hour (Nos) | 5768 | 11459 | 99 |
| Revenue Aircraft Miles (millions) | 189.2 | 175.9 | 7 |
| Average Speed (mph) | 362 | 393 | 9 |
| Revenue Stage Flights (000's) | 284.8 | 211.1 | 26 |
| Average Staff Numbers | 54,425 | 53,369 | 2 |
| Average Tonne Miles per Employee | 55,443 | 95,976 | 73 |

Table 9.2. British Airways - Total Airline Operations Selected Physical Facts

(Source : BA Annual Reports and Accounts)

Kingdom market. Additionally, its inbound tours department has become the largest operator of tours into the U.K. from longhaul and European markets. A wide variety of inclusive holidays are marketed through the tour operating companies given in Figure 9.1., trading as Sovereign and Enterprise Holidays (Silver Wing Surface Arrangements Ltd), Speedbird Holidays (Alta Holidays Ltd) and by Martin Rooks and Company Ltd. Many of the tours utilise the aircraft operated by British Airtours Ltd. The turnover of this group in year ended 31 March 1981 was £123m and 382 staff were employed at the end of that year.

British Airways Helicopters Ltd (BAHL) is mainly engaged in the service of North Sea Oil and gas installations. However, it also provides scheduled services between Gatwick and Heathrow airports and Penzance and the Isles of Scilly. In the year ended 31 March 1981, the turnover of BAHL was £32.8m and, at the end of that year, it owned 30 helicopters and employed

879 staff.

The International Air Radio Group (IAC) covers a group of companies providing telecommunications, computer and other specialised technical services throughout the world. The group turnover was £63.9m in the year ended 31 March 1981. The British Airways Associated Companies Group (BAAC) administers British Airways interests in foreign local and regional airlines. Its turnover in the year ended 31 March 1981 amounted to £6.6m. The Other Companies Group consists of the three companies listed in Figure 9.1. The combined turnover of these companies in the year ended 31 March 1981 was £4.6m.

It is considered pertinent to later discussion to make further reference to the manpower situation. Overall staff numbers were reduced from 55,184 on 31 March 1980 to 50,795 on 31 March 1981, a reduction of 8.0%. This change was, by far, the largest in any direction since the creation of BA. It was noted earlier that, despite a relatively static manpower situation overall since 1972, manpower productivity has improved because of an increased volume of business. However, BA management have been of the opinion, in the last two years particularly, that there has been scope for a substantial reduction in manpower related to changes in working practices. The reduction of 4,389 staff in the last financial year is regarded by BA planners as a first step in that process. Further details are given in the next section in connection with the latest financial situation.

To conclude this section, it is considered by the author to be

relevant to note that the Secretary of State for Trade has announced that it is the Government's intention to change British Airways' status to that of a limited liability company in which shares willbe offered to the public. However, as in respect of NFC, the Government recognise that it may not be possible to launch a successful flotation in 1981 in view of the financial difficulties currently being experienced by BA, in common with most international airlines. The enabling legislation is contained in the Civil Aviation Act 1980, but BA planners consider that it will be some considerable time before firm steps are taken to 'privatise' the organisation.

9.2. The Financial Situation of BA

Unlike the BRB, NFC and NBC, British Airways is partly funded by State-owned equity capital, known as public dividend capital. This arrangement was originally granted to BOAC as part of its capital restructuring in 1965. The principle was continued on a temporary basis in respect of BA under the Civil Aviation Act 1971 and made a permanent feature of its financing arrangements under the British Airways Act 1977.

On the creation of the British Airways Board, the amount of public dividend capital was £65m but this was increased to £125m by the end of the first financial year. Subsequent increases, which although not specifically linked to the purchase and use of Concorde, were regarded by BA as being for that purpose, increased the public dividend capital to £280m by the 31 March 1976. During the last five financial years the Government has increased the public dividend capital at the rate

of £10m per annum (under the arrangements permitted in the British Airways Board Act 1977) but also arranged a reduction of £160m (in the Civil Aviation Act 1981) thus reducing it to £170m at the 31 March 1981. This reduction was designed to reduce the value of Concorde to nil.

In its first year of trading (year ended 31 March 1973), British Airways made an operating profit of £32.8m, after charging depreciation on an historic cost basis of £52.3m. This was converted to a profit before interest and tax of £33.9m, after taking into account miscellaneous credits and charges. After allowing for interest (£19.3m), taxation (£8.7m), extraordinary items and minority interests, however, the net profit available for appropriation was £5.2m. Of that amount, a provision was made for payment of the first dividend to the Government of £4.4m.

During the years 1973/74 to 1979/80, the profit before interest and tax has fluctuated considerably. During some of these years, BA sustained losses after interest and tax and were unable, therefore, to declare dividends in respect of the public dividend capital. A summary of the results is given in Table 9.3, where it will be observed that dividends were not paid in respect of three of the financial years.

The result for the last financial year (1980/81) was considerably worse than any of the earlier years. A loss before interest and tax of £69.9m was sustained. After interest (£73.1m), tax (£3.7m) and other minor items, the net loss for the year was

| Year | Profit/(Loss) | | Dividend |
|---|---|---|---|
| | Before Interest and Tax | After Interest and Tax | |
| | £m | £m | £m |
| 1973/74 | 60.9 | 16.6 | 6.1 |
| 1974/75 | 5.4 | (9.4) | - |
| 1975/76 | 10.1 | (16.3) | - |
| 1976/77 | 107.6 | 35.1 | 11.0 |
| 1977/78 | 64.7 | 32.5 | - |
| 1978/79 | 109.8 | 77.3 | 39.2 |
| 1979/80 | 54.9 | 10.5 | 7.0 |

Table 9.3. British Airways Profit and Loss Results and Dividends 1973/74 to 1979/80

(Source : BA Annual Reports and Accounts)

£145.1m. This loss is analysed in summary profit and loss form in Table 9.4. It will be observed that all of the subsidiary groups apart from British Airways Tour Companies made small operating profits but the main airline activity conducted by the British Airways Board itself sustained an operating loss of £108.5m. Naturally, in these circumstances no dividend was recommended.

In the annual report and accounts for 1980/81, the chairman of BA described the deterioration in results as having been due to the economic recession, excessive growth in overall international capacity resulting in lower average fare levels ('the resultant over-capacity in some markets accelerated the movement towards cheaper and promotional fares'), the inability of BA to react quickly in making cost reductions due to the substantial level of fixed costs and the effect of the Air

| | Receipts (including intra-group sales) | Operating Profit/(Loss) |
|---|---|---|
| | £m | £m |
| Groups | | |
| - Airlines Group | 1703.9 | (108.5) |
| - British Airtours Ltd | 49.7 | 1.9 |
| - British Airways Engine Overhaul Ltd | 57.2 | 2.4 |
| - British Airways Tour Companies | 123.4 | (0.7) |
| - British Airways Helicopters Ltd | 32.8 | 5.2 |
| - International Air Radio Group | 63.9 | 4.1 |
| - British Airways Associated Companies Group | 6.6 | 0.8 |
| - Other Companies Group | 4.6 | 0.3 |
| | 2042.1 | (95.1) |
| Operating Profit/(Loss) | | (95.1) |
| Income from Associated Companies | | 1.7 |
| Income from Trade Investments | | 0.1 |
| Other Income - Interest Receivable | | 8.1 |
| - Surplus on Disposal of Assets/Investments | | 15.3 |
| Profit/(Loss) before Interest and Tax | | (69.9) |
| Interest | | 73.1 |
| Currency profit | | 2.3 |
| Profit/(Loss) before Taxation | | (140.7) |
| Taxation | | 3.7 |
| Minority Interests | | 0.7 |
| Net Profit/(Loss) | | (145.1) |

Table 9.4. BA Profit and Loss Account - Year ended 31 March 1981

(Source : BA Annual Report and Accounts 1980/81)

Traffic Controllers' dispute. Little real hope was expressed in the report and accounts of BA being able to quickly overcome these problems, although the remark was made that 'These difficulties must be overcome. Our aim is a speedy return to profitability: continuing improvement in efficiency, particularly

in the use of manpower: containment of capital expenditure; and above all to meet the requirements of our customers throughout the world.'

In fact, the financial situation was considerably worse than so far portrayed. On a current cost accounting basis, the loss in 1980/81 was £186m, after allowing for additional depreciation of £55m and a gearing adjustment of £36m (credit). For the purpose of calculating the gearing adjustment, public dividend capital and reserves were treated as the equivalent of shareholders funds. Although it was contrary to the Government's instructions to the nationalised industries to make a gearing adjustment, it had been agreed that it should be done since it was intended to denationalise British Airways.

Turning to the historic cost balance sheet (as at 31 March 1981), it recorded reserves at £142.2m. These would be completely eliminated if the loss in 1981/82 were equal to the 1980/81 result. Current liabilities exceeded current assets by £80.2m. Additionally, of the capital borrowings outstanding on 31 March 1981 (which had been accumulated to finance purchase of replacement aircraft) of £782.4m only £34.3m had been borrowed from the Government. The balance, whilst being supported by H.M. Treasury guarantees, was in the form of bank loans including £633.9m borrowed in U.S. dollars. Thus, apart from any possible difficulties concerning fluctuating exchange rates when the loans mature, the Government is not able to undertake a capital reconstruction similar to those undertaken in respect of the BRB and NFC or hoped for by the NBC. In this case,

there are few debts to the Government which can be written-off (only the loan of £34.3m or perhaps the public dividend capital itself of £170m). Any capital reconstruction would, therefore, need to include an injection of additional Government funds. Recognition would also need to be given to the £454.8m of forward capital expenditure commitments already contracted at the end of March 1981, a substantial proportion of which is payable in U.S. dollars.

The external financing requirements of BA amounted to £303.6m in 1980/81 which was funded by capital borrowings (net) of £293.6m and an increase in the public dividend capital of £10m. The author could not obtain from BA an estimate of the 1981/82 profit/loss or external financing requirements but it has been speculated that 'a loss of over £100m is clearly on the cards' (Financial Times 14 August 1981) and, given the forward capital commitments, it seems likely that the net cash requirements in 1981/82 will be close to the 1980/81 level.

Given a further large loss in 1982/83, it is conceivable that BA would technically be on the verge of insolvency by that financial year and would require some form of major capital reconstruction. In his annual statement within the annual report and accounts for 1980/81, the chairman of BA has not speculated on such an eventuality.

One crumb of comfort can be obtained from an examination of the published current cost balance sheet as at 31 March 1981. In that statement, the reserves were increased to £665m as a

result of revaluation of assets, particularly aircraft, to current cost levels, minus depreciation on the current cost basis. However, the value of these assets would almost certainly be substantially less in the perhaps unlikely event of their having to be sold in a liquidation situation.

Finally, turning to cash limits and other objectives, the Department of Trade (following the arrangements outlined in Cmnd 7131) added to the objective noted in Section 9.1. by requiring from 1979/80 to 1981/82 that BA achieves a '6% return on assets revalued on a current cost basis and the resultant supplementary depreciation included in costs.' This has not been achieved, with the results for 1979/80 and 1980/81 being 0.4% and minus 9.7%, respectively.

This objective still exists for 1981/82 but BA management are, not surprisingly, of the opinion that there will be a major shortfall. Attempts are being made by BA management to persuade the Secretary of State for Trade to reduce the required rate of return to 4%. Additionally, BA are proposing to the Secretary of State that two further objectives be established covering the years 1981/82 to 1984/85, viz:-

a) To achieve an improvement in labour productivity (measured in terms of available tonne kilometres per employee) of an average of 6% per annum.

b) To achieve a reduction in unit costs (excluding fuel and user charges which are considered to be beyond BA's control) of an average of 3% per annum in real terms i.e. after adjusting for inflation.

In respect of the external financing limit (EFL), this was originally set for 1980/81 by the Department of Trade at £219m. However, in recognition of the fact that the losses in 1980/81 could not be completely offset by reductions in borrowing (i.e. by reductions in capital expenditure in the main), the Government agreed to increase the EFL to £304m. The emerging result was just within that revised level.

PART 3

# CHAPTER 10

# CORPORATE PLANNING IN THE BRITISH RAILWAYS BOARD

In this chapter, it is intended to provide details of the corporate planning practices of the British Railways Board, drawing comparisons with the theoretical material provided in Chapters 3 and 4. Similar expositions and comparisons will be made, in Chapters 12, 13 and 14 in respect of the other three organisations covered in this research. However, in the case of the BRB it is intended to go one stage further by summarising the significant features and forecasts contained within recent BRB plans. That information will be provided in Chapter 11. Both the theoretical comparison and the BRB plan summaries will be seen to be major inputs to the 'success' assessment dealt with in Chapter 16.

In order to structure the theoretical comparisons required of this chapter, it is intended to divide it into two sections dealing, respectively with:-

1. The Process of Corporate Planning
2. Corporate Planning Procedures

The structure of each of these sections will be largely related to the model and explanations provided in Figure 3.5. of Chapter 3 and the theories provided in Chapter 4, respectively.

## 10.1. The Process of Corporate Planning

The process of corporate planning was formally adopted by the British Railways Board in the late 1960's and its use has continued since with considerable enthusiasm and effort. Prior

to that time, the BRB had been involved in a number of strategic reviews but not in full and formal corporate planning. These strategic reviews included the Modernisation Plan in 1955 which 'gave rise to a great decade of change (1960/70) within BR' (Bonavia, 1981), the 'Reshaping Report' in 1963 which gave rise to the so-called 'Beeching Cuts' in unremunerative passenger services and lines and a 1968 review of strategy for the Freight business. In this latter review, emphasis was placed upon the train-load sector at the expense of a partial run-down in the wagonload sector of the Freight business as recommended in the Reshaping Report, fore-shadowing more recent strategic effort.

In order that the process of corporate planning could be introduced reasonably quickly and on a firm theoretical footing, the BRB and the then Ministry of Transport jointly commissioned a firm of consultants to prepare an outline of the nature of the task and the recommended procedures for its use. The consultants, Cooper Brothers, produced their report entitled 'Corporate Planning in British Railways' in 1967. This was submitted to a Joint Steering Group of the British Railways Board and the Ministry of Transport.

The consultants' report considered a corporate planning system in terms of concepts and organisational implications and provided a useful outline of the process and procedures which should be followed to prepare a corporate plan. Some of the salient features are covered in the next few pages. They established in their report a series of 'elements' of corporate

planning and identified the relationship between them and summarised their approach in the form of a model, which is given as Fig. 10.1. Cooper Brothers explained that forward planning is an integral part of executive management's responsibilities and they clearly regarded the process as being of overriding importance. They regarded strategy formulation as the responsibility of board members and headquarters chief officers and action planning by executive management at headquarters and regional level.

The conclusions and recommendations in the report were based on the assumption that the main objectives and 'planning parameters' would be laid down by Government and it was made clear that the BRB would generally only find it necessary to determine more detailed objectives for parts of the business within such overall objectives. Given that assumption, the approach summarised in the model dealt with the formulation of strategy following an external and internal appraisal, preparation of action plans and monitoring and control of performance.

In regard to related organisational issues, Cooper Brothers made a number of recommendations, one of the most vital of which concerned the creation of a strong corporate planning department. The terms used were important, viz:-

> 'The main responsibility of this organisation is to see that planning is done by executive management; it must clearly have a central role in co-ordinating planning activities wherever carried out and in appraising the plans formulated. Moreover, the corporate planning organisation should be active in stimulating the search for new opportunities and new solutions to existing and future problems.'

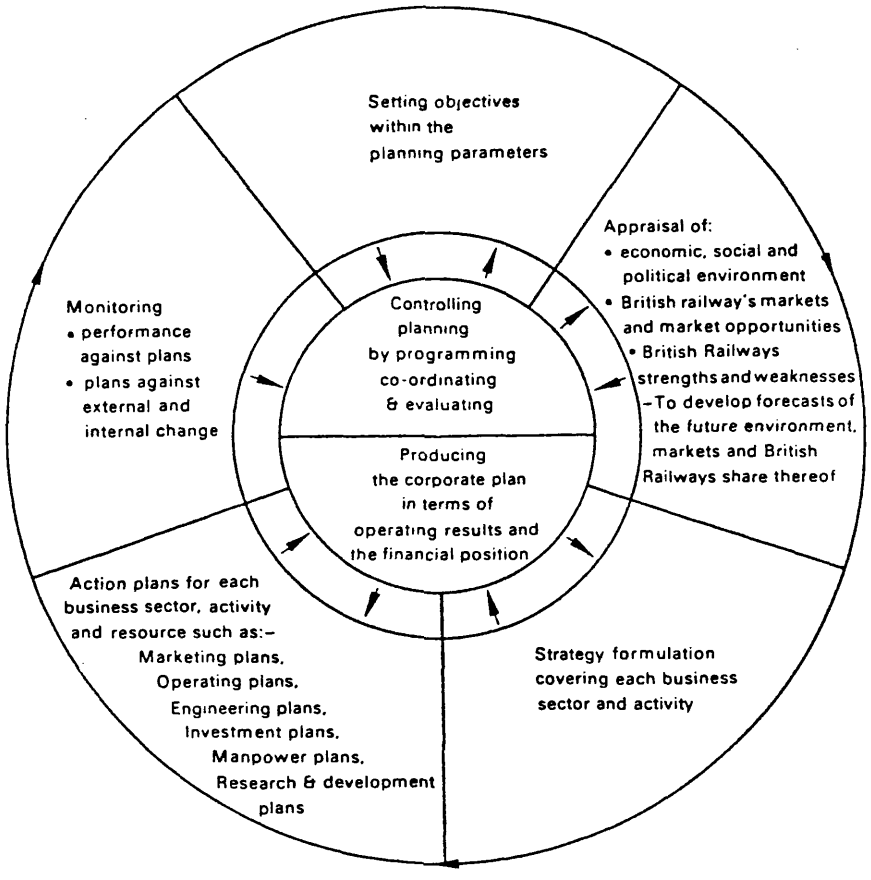



Figure 10.1 - Relationship and Cycle of the Elements of Corporate Planning.

(Source: Cooper Bros., 1967).

In line with this recommendation, a corporate planning department was set up in 1968/69 under control of an Executive Director, Planning, a senior position just short of board member status. At that time, board members were non-executive and executive responsibility, within the Railways business, was vested in Executive Directors who were in control of the various departments, with a Chief Executive carrying overall responsibility to the Board. In 1971, the post was redesignated Controller of Corporate Planning, but the full Executive Director status remained. The Controller of Corporate Planning became responsible for coordinating production of the Railways business element of the corporate plan (known as the Rail Plan) and the consolidation of the overall BRB corporate plan, which required a plan from each of the subsidiary businesses. He also took responsibility for the development of procedures and methods by which all of the plans were to be compiled and of the planning assumptions on which each would be based. The assumptions included such matters as forecast rates of inflation (as measured by the retail prices index), output (as measured by, for example, gross domestic product and consumers' expenditure) and real increases in staff costs (i.e. cost increases in excess of the forecast inflation level).

Since the adoption of corporate planning by the BRB, no attempt has been made by the BRB to consider overall strategy, objectives or goals for the organisation as a whole. This follows another important recommendation about procedures and methods related to the aggregation of the plans of each business. Cooper Brothers recommended that the corporate plan should be the

aggregation of the plans of each business, with each 'business plan' being virtually a corporate plan within itself in terms of being largely self-contained. This situation applies today with little stress being laid on the determination of fully corporate objectives and strategy with respect to the British Railways Board's total business. Thus, the corporate plan of the BRB is a consolidated document of the respective plans of the businesses and not the overall business taken as an entity.

Cooper Brothers further recommended that the individual business plans and the consolidated plan (referred to as the corporate plan) be produced annually, thus recognising the need to keep the contents up-to-date. This is still the intention, but for various reasons there have been only seven formal plans during the last eleven years; these were in 1970, 1972, 1974, 1975, 1978, 1979 and 1980. A further plan is in the course of preparation and will be completed before the end of 1981.

The first plan was described as the First Corporate Plan with the Railway business document described as the First Rail Plan. The process of preparing the First Plan set a pattern for the future. A 'Rail Planning Group' was established which was chaired by the Executive Director, Planning (which post later became Controller of Corporate Planning and more recently Chief Planning Officer) and attended by a small number of his staff and a senior 'planning' representative from each major headquarters department. It will be recalled from Chapter 5 that many headquarters departments (e.g. Finance and Personnel) have corporate responsibilities and do not only represent the

Railways business. The group continues to meet and discusses planning procedures and assumptions to ensure co-ordinated action and progress. The members from outside the corporate planning department cover finance, investment, passenger, freight, parcels, operating, engineering (mechanical and electrical, civil, signal and telecommunications), personnel and B.R.E.L. They are jointly responsible for the production of Rail Plans.

The plans of the subsidiary businesses became the responsibilities of the boards of these businesses. Their planning work has taken place in similar fashion to those in respect of the Railways business, with regular planning meetings at a senior level with the guidance of the board of each business. Generally speaking, the chairman of each business planning committee or his representative will be expected to attend any BRB headquarter's corporate planning meeting held to discuss the consolidated plan or any guidelines and planning assumptions which have been issued to those businesses by the Chief Planning Officer. In this connection, the planning assumptions have generally been the same as those for the Railways business.

All of the business plans and the overall corporate plan have been submitted to the main board on completion. However, in 1977, it was decided to submit them in draft and final form to one of the BRB main board level committees - the Planning and Investment Committee (a small committee chaired by the Vice Chairman and Member for Finance which had the responsibility for approving major investment projects) to strengthen the

involvement of the board and to ensure their earlier involvement in the process. This arrangement was designed to answer the complaint by board members that the corporate and business plans were presented to them on a 'take it or leave it' basis.

There are a number of significant differences between the process of corporate planning undertaken by the BRB and the model provided in Figure 3.5. (Chapter 3). Each of these differences will be explored but it is considered appropriate first to note a model of the process of corporate planning adopted since 1977 in each of the businesses. The model was produced by the BRB's Principal Rail Planning Officer and is given as Figure 10.2.

This model represents the process which was adopted in the preparation of the 1978, 1979 and 1980 business plans and, therefore, the overall corporate plan. An examination of the process will be made shortly but it should be noted, at this stage, that the central portion of the model is known within the BRB as the 'two stage process'. That central portion relates to the production of the ten year corporate and business plans. Under this arrangement, each of the business plans is considered on at least two occasions by the Planning and Investment Committee. On the first occasion, each business is given strategic guidance and consideration is given to the planning assumptions. On the second occasion, each business presents its draft business plan for approval or, in some cases, revision. If revision is required, the business plan is re-presented to the Planning and Investment Committee.

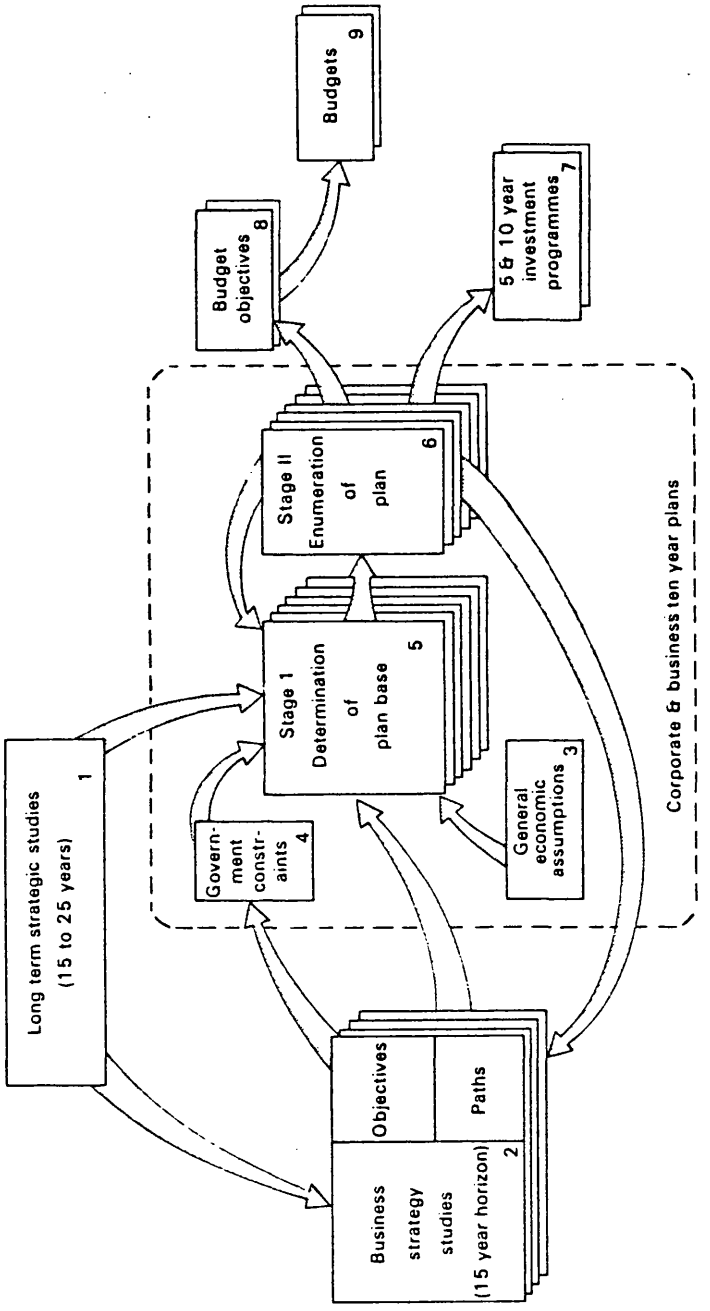



Figure 10.2 - The British Railways Board Planning Process.

(Source: British Railways Board).

It is now appropriate to examine the BRB process of corporate planning in more detail and, as noted earlier, in comparison with the theoretical position summarised in the model provided in Figure 3.5. Reference will frequently be made to the BRB process embodied in Figure 10.2. and, where appropriate, to the Cooper Brothers' model (Figure 10.1.).

The first element of the model in Figure 3.5. refers to the values of the organisation. In its corporate plans completed to date, the BRB has made no attempt to assess these values. Instead, the implicit assumption had been that this was a matter which would be dealt with fundamentally by Government, mainly through legislation, who would also be largely responsible for setting objectives. This approach was in line with that recommended by Cooper Brothers. However, the board has recently given some thought to its overall 'aims'. These were described in a 'Rail Policy' (March 1981) publication aimed at highlighting the need for 're-equipment and modernisation' of the Railways business. These aims were defined as follows:-

'Role of the BR Group

1. The Group is a railway based transportation business. Its central purpose is to provide railway services which meet the needs of industry and the public with the highest level of efficiency consistent with achieving its financial aims, within the framework set by Parliament and Government.

2. The BR Group consists of the operational railway business, subsidiary activities which are necessary to railway operations and others which support and contribute to their conduct and survival in varying ways and degrees. The Group also desires to be associated with private sector activities which will promote achievement of its central purpose.

Financial Aims

3. The overall financial aim of the Group is to be viable on a long term basis, after including revenues from Government and Local Authorities in their role as customers and after taking into account the implications of any external borrowing.

4. The Group will encourage all rail business sector and subsidiary activities to develop in order that each shall make an adequate contribution to the overall financial aim in support of its central purpose. Financial objectives will be set for each rail sector and subsidiary business covering a period of 3 - 5 years giving clear requirements for profit and cash generation. Performance against these objectives will be monitored; and the objectives will be reviewed at the end of each five year period.'

Clearly these aims are an expression of the values of the organisation and it is intended that they form the basis of compiling the 1981 corporate and Railways business plans. They fall short of being a statement of financial and non-financial objectives, recognising, instead, the 'framework' set by Government and the need to develop financial objectives for each sector (i.e. of the Railways business) and each of the subsidiary businesses. These financial objectives are intended to be 'negotiated' with Government following agreement of the strategies which result from the Business Strategy Studies, noted in the model in Figure 10.2., and discussed further shortly.

No attempt has been made in the corporate planning process to explicitly establish policies in line with the theoretical situation outlined in Figure 3.5. However, in respect of this element of the corporate planning process, it is natural that the corporate and business plans have recognised the implicit and, where appropriate, explicit policies which have become established over the history of the organisation. The most

significant of these include:-

1. A requirement for high standard of safety of operation of the Railways business which is subject to rigorous written rules agreed with, and monitored by, the Railway Inspectorate, Department of Transport.
2. Avoidance of compulsory redundancy i.e. manpower reductions are expected to be made by matching reduced requirements to natural wastage expectations.

In respect of objectives, nearly all of these have been set by Government, rather than by the BRB, in line with the Cooper Brother's model. Despite the appearance of the word objectives in the BRB model (Figure 10.2), hardly any objectives have yet been determined by the BRB itself as a central part of the corporate planning process. The only exception to this was the inclusion in the 1978, 1979 and 1980 Rail Plans of the objective of maximising the profit of the Freight business (see Chapter 11 for details). However, this was not converted into a quantified objective.

Instead, the financial objectives set by Government including, more recently, the various cash limits, have generally been adopted for corporate planning purposes. These were fully described in Chapter 6. However, it must be recognised that the objectives determined by Government have been the subject of discussions with the Board and some were related to the various corporate and business plans and strategy studies prepared by the BRB. The most significant example of this was the requirement that the BRB must break-even one year with

another after receipt of the Railways Passenger business PSO Grant. As noted in Chapter 6, that requirement was embodied in the Railways Act 1974 which was itself related to an Interim Rail Strategy which was an essential feature of the 1974 Rail Plan (see Chapter 11). However, the PSO and EFL cash limits were not determined as part of the BRB's corporate planning process. Details of the inclusion of these objectives in recent corporate plans is given in Chapter 11.

Similarly, the BRB has not attempted to develop non-financial objectives as part of its corporate planning process. The only non-financial objective which has existed in recent years is that relating to maintaining the Railways Passenger system so as to provide a public service which is comparable, generally, with that operated in 1974. That objective was also contained within the Railways Act 1974 (see Chapter 6) and, whilst it was set by Government rather than the BRB, it was undoubtedly related to the Interim Rail Strategy.

The term goals as identified in Figure 3.5. has not been accepted by the BRB as an element of the process of corporate planning. Instead, emphasis has been placed upon the financial objectives set by Government which have tended to be the same for each forecast year of each of the plans e.g. the PSO grant objectives which would normally be expected to remain flat in constant price levels. Even in respect of the Freight and Parcels businesses, where a Government break-even objective has existed, goals have not been expressly set even though changing levels of profits/losses were forecast in the Rail Plans.

The BRB have put a considerable amount of effort into the development of strategy, in recent years, involving both external and internal appraisals. The external appraisals have been related primarily to competitive trends and the future expected movements in macro-economic indices. These indices, together with estimated levels of investment ceilings and real increases in costs have been converted into planning assumptions. The internal appraisals have been concerned with strengths and weaknesses.

In respect of the external appraisals, one of the main sources of reference in recent years has been to a special programme of long term studies conducted by the Corporate Planning department in 1973. These studies were designed to:-

a) Forecast the total market for Passenger and Freight transport for the year 2000.
b) Identify and evaluate the market and technological opportunities for Railways Passenger and Freight services.
c) Identify Railways business transport options compared with non-rail alternatives, evaluated in economic, environmental and social terms.

However, the overall approach to strategy selection has not been on the same basis as discussed in Chapter 3. The most significant differences have been that the BRB process has not involved gap analysis, nor the consideration of contingency strategies.

In 1972/73 the strategic effort was directed into the production

of a Railway Policy Review document (January 1974) which was an overall review of the future prospects of the Railways business and which defined what was described as the 'interim rail strategy'. It attempted to deal with a worsening financial situation and recommended a strategy of high investment (see Chapter 11 for further details). However, in the eventual absence of Government support for this investment, i.e. increases in investment ceilings were not forthcoming, the BRB decided to adopt a new approach (in 1975) which was to conduct 'Business Strategy Studies'.

These Business Strategy Studies, which have been related to a planning horizon of 15 years, have been conducted between 1975 and 1980 in respect of the following businesses:-

Railways - Passenger
- Freight
- Parcels

Sealink U.K. Limited

B.R. Hovercraft Limited

Freightliners Limited

The three Railways business studies were undertaken by the members of the Rail Planning Group and have been incorporated into the 1980 Rail Plan. The Sealink, Hovercraft and Freightliner studies were conducted by the management teams of those businesses. The Freight Strategic Study was completed in 1976 and incorporated in the Rail Plan compiled in 1978 and, with some adjustments, in the two plans completed subsequently. The studies in respect of Sealink U.K. Limited and B.R. Hovercraft

Limited have been overtaken by the privatisation developments noted in Chapter 6 and the Freightliner study was not sufficiently well developed for inclusion in the 1980 plan for that business.

Within the BRB, the Business Strategic Studies are often described as the 'sector strategic studies'. This is because, in respect of the three businesses making up the Railways business (i.e. Passenger, Freight and Parcels), the studies have been undertaken in respect of each of their constituent sectors separately, namely:-

| Passenger | Freight | Parcels |
|---|---|---|
| Inter-city | Trainload | S. to S. |
| L. & S.E. | Wagonload | C. & D. |
| P.T.E. | Speedlink | |
| Other Provincial | | |

Thus, the Railway business strategy which was contained in the 1980 Rail Plan was the result of correlating and aggregating nine separate sector studies. In each of these studies, a small number of potential strategies have been considered leading to their evaluation and final selection. The criteria of acceptability has not been 'gap closure', in the absence of specific long term objectives, but selection of the strategy which produces the perceived best financial forecast for each sector. As noted earlier, the BRB intend to develop objectives from these studies in agreement with the Department of Transport. This has not been achieved yet, largely because of the recent deterioration in the financial results of the BRB, whereby the latest expectation for 1981 is considerably worse than that contained in the 1980 corporate plan (see Chapter 16). It

should be noted that the interim financial targets, explained in Chapter 6, were originally described as 'interim' pending completion and agreement of the Business Sector Studies.

As well as the Business Sector Studies the BRB has, since 1979, conducted a number of Long Term Strategic Studies. In that year, they created a Strategic Planning Steering Group and a Strategy Unit to undertake a number of long term strategic studies related to particular problem areas or opportunities. The steering group which oversees the studies is chaired by one of the part-time board members (M.V. Posner) and consists of the deputy chairman, the vice chairman and board member for finance, the vice chairman and board member for engineering, the director of strategic studies and an external member (Professor John Heath). The strategy unit, which undertakes the studies is chaired by the director of strategic studies and consists of eight full time planners.

Since its creation, the strategy unit, under the aegis of the steering group, has produced strategic reports on the following issues:-

a) Human Resources

- Availability of Labour (May 1980)
- Role and Motivation of Traffic Supervisors (Nov. 1980)
- Role and Motivation of Workshop Supervisors at Eastleigh depot (June 1981)

b) Railway Infrastructure

- Stage 1 - Analysis (April 1979)
- Stage 2 - Development of Opportunities (November 1979)

- Stage 3 - Evaluation of Opportunities (December 1980)

- The Strategic Study of Railway Infrastructure (recommending courses of action) (July 1981)

c) Cross London Rail Link (May 1980)

d) London and South East Services (October 1979)

e) Review of Main Line Electrification (joint study with Department of Transport)

- Interim Report (1979)

- Final Report (1980)

f) Manufacturing and Maintenance Policy (concerning long term strategy for design, development, manufacture and maintenance of rolling stock (November 1979)

g) Channel Tunnel Feasibility Study (in conjunction with French Railways - SNCF) (1980)

Apart from the Review of Main Line Electrification, which was contained within the 1980 corporate and Railways business plan, none of the recommendations within these studies has yet been incorporated in the corporate and business plans so far completed. The main line electrification study has received outline approval from Government (Hansard - Ministerial Statement 22 June 1981) subject to the BRB being able to make 'immediate substantial economy measures' to alleviate the deteriorating financial situation noted in Chapter 6.

The absence of reference to 'gap analysis' in the strategic studies conducted by the BRB has been related to the belief (expressed in the BRB model in Figure 10.2.) that it is best to conduct the Business Strategy Studies first and then produce a series of potentially achievable objectives for discussion with Government. The objectives already set by Government, notably the cash limits, have been regarded as potentially

subject to change at short notice. Additionally, it has been necessary for the BRB to assume what the cash limit objectives will be in the future, in the absence of guidance from Government. However, as noted earlier, this has not prompted the BRB to develop its own series of objectives for each business.

One feature which has been of special concern to the BRB was the future level of Government investment ceilings. The BRB have not been able to obtain from Government a long term, reliable view on the level of future investment ceilings and have had to make their own assumptions. It will be seen in Chapter 11 that, in most of the Railways business plans which have been produced, the BRB have assumed a steeply rising profile of investment. This has amounted to what is known within the BRB as a 'bid plan' arrangement. However, it has not produced any increase in the levels of the investment ceilings and, as will be seen in Chapter 11, proved to be a major source of difficulty in respect of the Railways business plans, particularly those produced in 1974 and 1975.

The BRB corporate and business plans produced to date (seven) have been very similar to the strategic plans noted in Figure 3.5. except that contingency plans have not been produced. They have contained information about the latest Government objectives including assumptions about how the cash limits might vary over time, details of the strategy for each business (as so far developed) and forecasts of the outcome for the base year (usually the budget for the year of production),

each of the next five years and, in some plans, a 'snapshot' view of the tenth year after the base year. These forecasts have covered financial and physical matters covering all of the major aspects of each of the businesses i.e. profit and loss, cash flow, market volume, operating and maintenance volume/resources, manpower resources and investment.

These plans have generally been produced between October and April (i.e. April of the base year) but the 1980 Railways business plan (and thus the corporate plan) was 're-cycled' on a number of occasions in an attempt at improving the forecasts. The same situation is currently occurring in respect of the 1981 Rail Plan. Whilst fresh evaluations take place in each business plan, many of the forecasts (particularly resources) have, recently, been drawn from the Business Strategy Studies.

Contrary to the advice provided by Cooper Brothers, action plans are not produced by the BRB. Instead, they have, since 1978, adopted a process known as 'budget objectives'. This process was originally designed to acquaint the Regions of the Railways business with the financial and physical forecasts contained within the first year (i.e. the first year after the base year) of the Railways business plan. In 1979 the budget objectives process was extended to the subsidiary businesses. That process did not compare with an Action Plan in that little attempt had been made at identifying the detailed reasons for change, only the expected outcome. However, this expected outcome has been used as the criteria for measuring the acceptability of the budgets at BRB headquarters level.

This process has not worked well in that the General Managers and senior management of the Railways business regions, particularly, have not felt that they have played an adequate part in the Railways business plan production. They have also considered that they have not been provided with a clear idea of the forecasts contained within each Railways business plan, how these forecasts were arrived at and what they must do to achieve them. Instead, the budget objectives process has been seen as a target setting activity with inadequate guidance being provided on how to achieve the targets. The net result of this has been that, during the last four years, submitted Regional budgets have recorded substantial shortfalls (particularly in respect of growth in Passenger receipts and reductions in operating costs and resources) compared with the targets, which have often been described by the Regions as unattainable.

As a result of this problem, the BRB budgeting process has not been in line with the theoretical position outlined in Chapter 3. This problem has been made worse by the fact that the monitoring of the budget has been the only feedback process in operation. No formal attempt has been made to monitor the implementation of the entire corporate/business plans. Indeed, the BRB has only once conducted a back-check of the forecasts contained within their corporate and business plans. That has occurred in recent weeks when questions asked by board members concerning the deterioration in the financial forecasts contained within the draft 1981 Railways business plan (see Chapter 16) prompted a review of shortfalls in receipts and their

relationships with macro-economic assumptions and asset replacement programmes. The only other reference to earlier plans has been when the forecasts contained within a plan have occasionally been compared with those given in the previous plan. Even then, only a brief evaluation and explanation has been given of the significant changes in the forecasts.

Thus control has mainly been exercised through the budget procedure, which itself has had an inadequate relationship with the plans. Each corporate/business plan has been prepared almost as a free-standing exercise, taking into account further progress in the Business Strategy Studies and, as will be seen in the next section, a later view of likely macro-economic circumstances over the period of the plan.

## 10.2. Corporate Planning Procedures

Moving now to procedural issues, it is intended to provide this description in the same order as the theoretical analysis provided in Chapter 4.

### 10.2.1. Forecasting

The forecasting procedures used by the BRB in their corporate planning process have not made extensive use of the range of techniques provided in Chapter 4. In regard to the special long term studies (external appraisal) conducted in 1973, however, use has been made of the Delphi technique. Additionally, elements of the more recent Channel Tunnel and Main Line Electrification studies have made use of multiple regression to

forecast the changes in working expenses. By and large, however, a more judgemental approach has been applied by the individual planners involved in the Business Strategy Studies and the production of the (strategic) business plans. Further details of these procedures is provided in the next few paragraphs.

In regard to the business plans, the procedures are summarised in the model which appears as Figure 10.3. Whilst this model refers specifically to the Railways business plan forecasting arrangements, it has also applied in principle to the production of the plan forecasts for each of the other businesses. It also covers in principle the procedure for evaluating each of the strategic options considered during the Business Strategy Studies process.

The various stages of the Railways business plan forecasting procedure are explained below:-

(1) Planning Assumptions

(a) Strategic guidance from Planning and Investment Committee based upon last plan and any Long Term/ Business Strategy Studies completed in the interim. Decision on the level of the Government's investment ceiling and its distribution over businesses.

(b) Assessment of macro-economic forecasts.

(2) Investment Specifications by Business/Sector

Assessment of:-

(a) Capital investment by type of asset.

(b) Revenue investment by category of work.

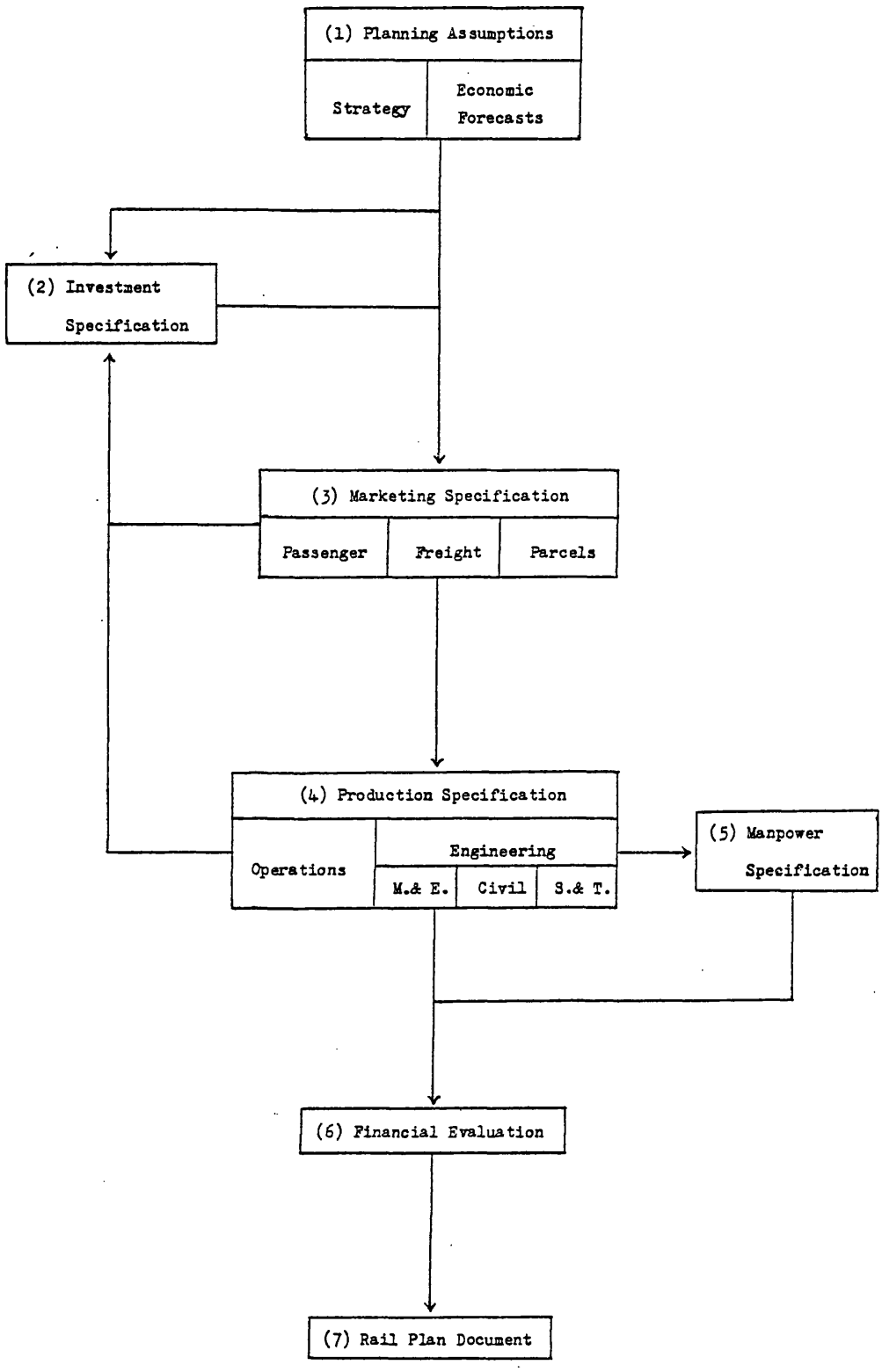



Figure 10.3 - Rail Plan Forecasting Procedure.

(Source: Discussions with British Railways Board Planners).

(3) Marketing Specification by Business/Sector

Assessment of:-

(a) Receipts in constant prices

- Volume changes
- Real price changes

(b) Passenger loaded train miles by type of traction

(c) Passenger Miles

(d) Freight tonnes by commodity

(e) Freight net tonne miles

(f) Wagon requirements by type

(4) Production Specification - Operations Department - by Business/Sector

Assessment of:-

(a) Total train miles (i.e. loaded and empty) by type of traction

(b) Locomotive and rolling stock requirements by type of asset

(c) Manpower requirements

- train crew
- terminals
- administration

Production Specification - Mechanical and Electrical Engineering (M. & E.E.), Civil Engineering (C.E.) and Signal and Telecommunications Engineering (S. & T.E.) Departments

Assessment of:-

(d) Maintenance expenditure. This is analysed to Business/Sector in respect of M. & E.E. only.

(e) Manpower requirements

- Engineers
- Administration

(5) Manpower Specification

Assessment of:-

(a) Other administrative manpower requirements

(b) Vacancy levels to convert the manpower requirements to estimated actual manpower levels

(6) Financial Evaluation by Business/Sector

(a) Conversion of the above largely physical data into a financial forecast in constant prices

(7) Rail Plan Document

(a) Summarisation of physical and financial forecasts

(b) Commentary on strategic content, comparison with objectives, forecast results and main risk areas. Since the 1978 Rail Plan, a formal risk analysis has also been undertaken and incorporated in this commentary.

At the Planning Assumptions stage, four crucial forecasts have usually been made. The first concerns the expected level of the Government's investment ceiling. Two opposing forces have been at work here. The first is that, historically, the investment ceiling has not risen throughout the 1970's and the economic state of the U.K. might suggest that large and early increases would be unlikely. The second was that the strategies which have been developed during the Business Strategy Studies process and the earlier Interim Rail Strategy have required a rising total investment profile. The BRB have always adopted a rising profile assumption, seeing it as part of the problem of convincing Government that successful strategic change requires investment at a higher level than hitherto although the steepness of the slope has varied over

the plans. It has also been necessary for the Planning and Investment Committee to decide on the distribution of the forecast investment ceilings between the businesses. This has recently been related to the requirements determined in the Business Strategy Studies but, in earlier plans, to the judgement of the committee based on previous plans.

The second forecast concerns the expected trends of selected macro-economic indicators. These have been produced by the BRB's senior economist (a member of the staff of the director of strategic studies and also a member of the strategy unit) on the basis of a comparison of various published economic forecasts including those issued by the Treasury. In practice, care has been taken to ensure that the BRB forecasts were close to the Treasury forecasts since this assists Government understanding and acceptance of the plans and underlying strategies. Details of some of the main indicators produced are given in Chapter 11 and in the next few paragraphs.

The third forecast concerns the expected percentage level of real cost increases in each year. In the earlier Rail Plans, the assumption was made that this feature would only apply to staff costs but, in the last two Rail Plans, it has also been applied to fuel for traction.

The fourth and final assumption has been the rate of interest on borrowings anticipated to be applicable in each year of the forecast. This forecast has also been prepared by the senior

economist, and based on a comparison of other forecasts.

In the investment specification stage, the investment requirements stipulated by the Business Strategy Studies, sometimes moderated by the Planning and Investment Committee to match the latest investment assumption, have been analysed by type of asset (capital investment) and category of work (revenue investment). This has been necessary to ensure that there was a full understanding in all departments of the detailed investment intentions which would have a material effect on the forecasts of receipts and expenditure. It also facilitated reconciliation with a later stage in the BRB corporate planning process (10 year investment programmes) which will be discussed at the end of this sub-section.

In the marketing specification stage, the forecasts were largely a combination of the market research, visionary forecast, historical analogy and leading indicators techniques noted by Chambers et al. In effect, this amounted to the combination forecast technique identified by Hussey, which is not really a forecasting technique in itself but merely the aggregation of forecasts obtained by various techniques.

Historical analogy has been used in respect of elements of that part of the growth in passenger receipts where a reasonably analogous situation could be identified. For example, in respect of investment in the high speed trains for the Eastern Region where the growth in receipts might be expected to be similar in percentage terms to that experienced when these trains

were introduced on the Western Region. Market research has been used in respect of Freight and Parcels volume forecasts in that regular contact is made with large customers and information requested about their future patterns of growth or decline.

Heavy reliance has been placed upon the forecasts of leading indicators, in this case the macro-economic forecasts produced by the senior economist. The forecast changes in consumers' expenditure has been used to assess in part the non-investment related growth in the volume of Passenger receipts and the forecasts of changes in gross domestic product and in industrial production in the assessment of growth in Freight and Parcels receipts. The forecasts of changes in inflation (i.e. the retail price index) has been used to gauge the potential for real price increases.

In the final analysis, however, the visionary forecast technique (explained by Chambers et al as a technique which is 'characterised by subjective guesswork and imagination' and described by Fildes et al as the 'subjective estimate method') has been used in respect of each of the marketing specifications. The planning officers concerned in each of the three marketing departments have overlaid the forecasts, prepared under the above techniques, with their own experienced views of what is likely to happen.

In the production specification stage, the visionary forecast technique has been used almost exclusively by each planning officer in each of the departments concerned. One of the most

significant elements of this stage has been the forecast of the manpower requirements of the Operating department. Here substantial reductions have been forecast in each Rail Plan in connection with the strategies developed during the Business Strategy Studies process and earlier Railways business plan forecasts. Part of these reductions has been in respect of changes in operating practices and conditions of employment which have a significant industrial relations connotation. In this respect advice has been offered to the Operations and Engineering departments' planners, by the Director of Industrial Relations, concerning the timing of these events and the likely outcome of the negotiations.

In respect of the manpower specification, the visionary forecast technique is used to assess the likely changes in administrative manpower in the service departments and the overall levels of vacancies. These levels of vacancies have been used to reduce the forecast manpower requirements to estimated actual staff numbers. The forecast of the number of vacancies has generally been more a question of policy than forecasting. In respect of the 1974 and 1975 Railways Business Plans an assumption was built into the forecasts to allow for additional staff required to meet improvements in conditions of service. The additional cost was counted as being part of the real staff cost increases. This procedure was not followed in the 1978, 1979 or 1980 plans, partly because the earlier predictions were very inaccurate and partly to preserve confidentiality.

In the financial evaluation stage, the forecasting has consisted

initially of a mathematical conversion of physical facts forecasts into money, using derivatives relating to the base year (i.e. the budget for the year of compilation of the plan). Then the remaining two assumptions have been used to calculate real expenditure increases and interest. The real expenditure increases have been a mathematical overlay to the initial financial forecasts and the interest has been based on the forecast cash flow.

Throughout the procedures outlined above and summarised in the model in Figure 10.3, it is clear that emphasis has been placed upon ensuring that each stage is compatible with the one which preceded it. Little opportunity has been provided to change the forecasts within any of the preceding stages unless the entire plan is recycled. The only permitted exception to this has been in respect of the investment specification which can be varied by features emerging during the marketing and production specification stages. However, in practice, the investment specification has seldom been changed.

The financial evaluations, which constitute major features of the plan forecasts, have always been produced in constant prices based on the 'base year' price level. That base year has generally been the budget for the year of completion of the Plans but in respect of the 1979 and 1980 Rail plans, which were 're-cycled' on more than one occasion, the base was changed in each case to an updated budget known as the 'Outturn'. The constant price forecasts have allowed for positive and negative real price changes, as indicated earlier and, since the 1978

Rail Plan, efforts have been made to discount (by the forecast rate of inflation) those costs which cannot by their very nature, increase on account of inflation. In practice, only historic depreciation and interest have been so adjusted, representing the only significant features needing to be so treated.

In the 1974 and 1975 corporate and Railways business plans, the financial forecasts have been converted into estimated actual price levels by allowing for the forecast rates of inflation. However, this procedure was not applied to the 1974, 1979 or 1980 plans and in the absence of a back-check arrangement (see Section 10.1.) this was not considered by the BRB planners to be a significant omission.

In principle, the forecasting procedures of the subsidiary businesses have been almost exactly the same to those outlined in respect of the Railways business. Each has been conducted at the headquarters level of those businesses.

The involvement of the management of the five Railways regions in the production of the Rail Plans has been very small. They have produced some of the original input to the forecast of the volume of Freight and Parcels receipts but the extent of headquarters adjustments and overlays (often for strategic reasons not discussed with regions) has been so extensive as to make the regional input unrecognisable. The Passenger forecast, which in the early plans used to be partly based on regional estimates, has recently been produced wholly at headquarters level.

The net result of these arrangements has been that the Railways Regions have made little input into the Rail Plan forecasting procedures. Also, because the final forecasts have been analysed by Business and Sector, it has not been in a form which would permit Regional identification. Additionally, very little effort has been made to acquaint Regional General Managers and their senior managers of the detailed content of each Rail Plan. Indeed, the Rail Plans produced in 1974, 1975, 1978 and 1979 were not made available to the Regions. Some attempts have been made in recent months to discuss draft 1981 Railways business plan figures at Railway Directing Group meetings (meetings attended by board members, the five Regional general managers and some headquarters chief officers). However, these meetings have not been completely successful in acquainting the Regional general managers of what they are expected to achieve because the forecasts have not been analysed by Regions and the year-on-year causes of change have not been adequately described.

During the last four years emphasis has been placed upon the budget objectives arrangements as the means of overcoming this communication gap. Additionally, in respect of investment, the Railways Regions have been asked annually to produce 10 year investment programmes covering that portion of investment expenditure which is accounted for at regional level, which are reconciled approximately to the investment specification described in Figure 10.3. This procedure, which has relied on a considerable amount of headquarter's advice, is specifically mentioned in the model of the BRB corporate planning process provided in Figure 10.2.

This problem of inadequate communication to lower tiers of management has been particularly relevant to the Railways business because of its vast size and the fact that each Region also has Divisional and Area Management. Communication has been hampered by the political sensitivity attached to the strategic changes and the fact that the forecasts have not been prepared on a geographical basis. In respect of the other businesses the problem has not been so significant because they are much smaller and the forecasts are generally analysed in a way which is more easily associated with the management structure at lower levels.

The corporate consolidation of the forecasts has merely been the aggregation of the summary figures contained within each business plan. However, some measure of duplication, of necessity, has had to be eliminated. For example, the B.T.H. profit/loss on station and rail catering would have been included in the B.T.H. forecast and in the Railways business forecast. A similar situation has obtained in respect of the letting of operational property by the B.R. Property Board which is credited to Ancillary Income within the Railways business profit and loss account.

To conclude this section, it is intended to discuss briefly the BRB procedures in respect of investment appraisal. All investment projects are expected to have been included in the latest business plan and the investment programme. They are also subjected to investment appraisal but only before authorisation and not before their inclusion in business plan

forecasts.

Since 1967, the BRB has been using the discounted cash flow technique to evaluate certain projects. They were obliged to do so under the rules laid down under Cmnd 3437. The rate of return at that time was set by Government at 8%, which became 10% a few years later. Since 1979, however, a rate of 7% has been adopted by the Board. In all cases, the rates have been used in real terms, with associated cash flows being expressed, therefore, in constant prices.

A distinction has been drawn between projects which are essentially of a developmental nature and those which represent replacement of worn out assets, more or less like-for-like but in modern form. For example the replacement of locomotive-hauled trains by the high speed train is regarded as a developmental project which should attract additional receipts but the replacement of diesel multiple units by equivalent units, although more modern, would normally be regarded as a replacement project.

The D.C.F. procedure is only used in connection with the developmental projects and a positive net present value is expected after using the 7% discount rate. In these cases, the project would frequently be measured against the practical alternatives which would usually be like-for-like replacement in modern form, rather than a non-investment alternative. The non-investment alternative has generally been used where the project relates to a completely new facility.

Whilst the cash flows are said to be expressed in constant prices, the effect of real price changes has seldom been assessed as it has been in the business plans. Further, no attempt has been made to assess the Board's cost of capital, with complete emphasis being placed on the discount rates mentioned earlier.

The new rate of 7% real emerged from the Board's consideration of the impact of the requirement contained in Cmnd 7131 that the nationalised industries should achieve a 5% real return on their total investment outlay. The Board considered that the 7% rate when applied to developmental projects would be high enough to cover the replacement projects to which the D.C.F. procedures would not be applied.

The impact of the 5% real 'required rate of return' on BRB financial management arrangements has yet to be established. It was understood by the Board in 1979 that the entire capital investment of each of the businesses other than Passenger, as contained within each business plan (and thus the corporate plan) would be examined against the profit and loss forecasts to see whether a 5% real return was being forecast. It was appreciated that the profit and loss forecasts might have little to do with the capital investment but that point would be ignored, as would the treatment of parts of the Railways business investment classified as revenue investment. The Passenger situation was

uncertain, in 1979, because of a statement in Cmnd 7131 that the 5% required rate of return would not apply where the nationalised industry was performing a social service. However, the required rate of return process has yet to be adopted between the BRB and Government.

10.2.2. Model Building

Within the context of corporate planning, the significant steps taken in this respect have been related to the Railways business. Here the approach has been at two levels. The first commenced in 1973, when a relatively simple computer model was created by the staff of the Corporate Planning department and entitled PLATO. That model was designed to enable the Rail Plan forecasts, once manually produced, to be input into the computer and then revised for changed physical input. This was achieved by stipulating a small number of key variables and their expected effects on other components of the forecast. For example, a reduction in the forecast number of Freight loaded train miles would have an impact on the investment specification, train crew requirements/costs, fuel and maintenance costs, depreciation, interest and receipts. This model has been used occasionally to evaluate what are described as 'sub-strategic' options but it has been found that it is not sufficiently sophisticated to deal effectively with major changes in any of the specifications. Additionally, some of the expected effects have proven to be unfounded or inaccurate.

Consequently, it was decided in 1978 to move towards producing a more comprehensive model which would incorporate the manual

forecasting procedures which themselves simulate the operations of the organisation and allow the final forecast to be re-cycled much more speedily and effectively. Arrangements were made with a computer agency to use their broad planning model and build into it the procedures adopted by each headquarters contributor to the forecasting model given in Figure 10.3.

The intention was, and remains, to develop a number of inter-related models to enable each contributor to run his own model, using a computer terminal linked by telephone line to the agency's computer. This has proved to be an immense task, involving the improvement and standardisation of existing procedures and the creation of inter-related computer models. About two-thirds of the programs are already in operation and it is intended that each of the computer models will be completed by 1982. By that time, the time taken to produce the Rail Plan forecasts will be reduced by about three months.

Thus, it is clear that the approach now being adopted in respect of the production of the Rail Plan is intended to be fully integrated into the planning process as recommended by Naylor and using the modular approach favoured by Grinyer and Wooller. Further, it is anticipated by the BRB that all of the benefits highlighted by Grinyer and Wooller will be achieved. The limitations also explained by them are appreciated by the planners involved but are considered to be completely outweighed by the benefits.

10.2.3. Risk and Sensitivity Analysis

In its earlier business and corporate plans the BRB have used a form of sensitivity analysis whereby the major risks have been stated and, in a few cases, quantified using approximate methods. However, since 1978, the BRB have attempted to move to risk analysis and have done so in respect of the 1978, 1979 and 1980 Railways business plans. The chosen method was the 'Beta' distribution method explained in Chapter 4. This method was chosen because of its ease of operation. Thus minimum analysis of receipts and working expenses was required to obtain speedy results with a small amount of effort. Under this method, the forecast best/mode/worst forecasts for each year were analysed under the headings given in Table 10.4.

| | Passenger | Freight | Parcels |
|---|---|---|---|
| | £m | £m | £m |
| Receipts | | | |
| Volume | | | |
| Real Pricing | ____ | ____ | ____ |
| | ____ | ____ | ____ |
| Working Expenses | | | |
| Staff Costs - volume | | | |
| Other Costs - volume | | | |
| Real Cost Increases | ____ | ____ | ____ |
| | ____ | ____ | ____ |
| Profit/Loss | ____ | ____ | ____ |

Table 10.4. BRB - Rail Plan Risk Analysis Headings

It will be seen in Chapter 11 that some of the actual financial results have been outside the ranges of best/worst assessment

recorded on the normal distribution obtained under this method. The BRB planners are satisfied that this has not been the fault of the method but of substantially inaccurate assessment of the best/worst estimates. Efforts are being made to improve these forecasts to ensure the continued and successful use of this method. These efforts are related to holding discussions with each of the key forecasters involved in an attempt to make them appreciate the inadequacy of their earlier best/worst estimates and learn from that knowledge.

10.2.4. Budgetary Control

The budgetary control procedures used in each of the BRB's businesses have been substantially in line with the theoretical situation explained in Chapter 4. Financial and physical facts budgets are built up from receipts and cost centre levels are 'negotiated' at each level of aggregation. These negotiations are called 'budget reviews' and are designed to produce ambitious but achievable budgets. They are also designed to produce commitment to achievement of the budget at each level.

Monitoring takes place four weekly and at the end of 12 and 32 weeks an update of the budget is produced at all levels (known as the Outturn) to provide the Board with the latest view of expected results for the year. However, these outturns are not substituted for the budget, which remains the main control mechanism.

The only significant exception to the theoretical position has already been discussed and relates to the absence of an action

plan and the inadequate substitution of budget objectives. In these circumstances, the budgets produced by each of the Board's businesses have never been compatible with the business plans or, ultimately, the corporate plans.

# CHAPTER 11

# BRITISH RAILWAYS BOARD CORPORATE PLANS

In this chapter, it is intended to examine the BRB corporate plans prepared in the years 1974 to 1980. The purpose of this is partly to discuss further the information given in Chapter 10 but mainly to facilitate comparison with the actual results. This process is designed to provide a basis on which a substantial part of the success assessment can be attempted in Chapter 16.

It was noted in Chapter 10 that the corporate plans of the BRB consist of the consolidation of separate 'corporate' plans for each of the BRB businesses. Additionally, it is clear from the information given in Chapter 6 that the dimensions and problems of the Railways business are such that they completely outweigh the significance of the other businesses. For these reasons, plus the fact that they contain large elements of the B.R.E.L. and B.T.H. plans, it is intended to concentrate on describing the corporate plans of the Railways business rather than on the corporate consolidations or on all of the businesses separately. The Railways business plans will be looked at in considerable detail, with many of the figures being recorded in Appendices which contain the main forecasts of each Railways business plan in a comparative form.

## 11.1. Railways Business Plan 1974

The BRB corporate plan produced in 1974 was formally described by the BRB as the 'Third Corporate Plan' and that of the

Railways business, the largest section of the documents, the 'Third Rail Plan' or the '1974 Rail Plan'. It incorporated a strategic review of the Railways business known as the 'Railways Policy Review' which was undertaken in 1972/73 and was fundamental to the financing arrangements embodied in the Railways Act, 1974, described in Chapter 6. The Railways Policy Review prescribed in 'Interim Rail Strategy' which was accepted in principle by Government (Ministerial statements on 28 November 1973 and 24 June 1974 - Hansard). This Interim Rail Strategy was concerned with the Railways business only and was essentially one of development through investment in the replacement of assets in modern form coupled with rationalisation of the Freight and Parcels businesses.

The contents of the 1974 Rail Plan will now be considered under three headings - objectives, strategy and forecasts.

11.1.1. Objectives

No attempt was made to develop objectives in the 1974 Rail Plan. Instead, it was assumed that those laid down in the Railways Act, 1974 could be regarded as the fundamental criteria. These are summarised in Chapter 6 and basically required the Railways business to break-even after receipt of a Passenger (P.S.O.) grant designed, fundamentally, to eliminate the losses of the Passenger business. The plan contained reference to the Inter-city sector of the Passenger business and the entire Freight and Parcels businesses being regarded as 'commercial' but this concept was not developed in any meaningful way.

However, mention was made in the introduction to the corporate section of the combined 1974 Corporate/Rail Plan document which was submitted to the Department of Transport in January 1975, that there was an urgent need 'for a clarification and re-definition of the Board's objectives', to 'meet the new philosophy stemming from the 1974 Act.'

11.1.2. Strategy

In essence, the strategy contained within the 1974 Rail Plan was one of renewal of assets in modern form and of changes in direction in respect of the Freight and Parcels businesses. All of this amounted to considerable planned change designed to ensure an ongoing and largely modernised Railway.

In more detail, on the Passenger side, these developments were concerned with:-

a. Inter-city - Renewal of the rolling stock involving introduction of high speed trains on principal routes. Real increases in fares of 5% in 1975 and about 2.5% per annum thereafter.

b. Local Passenger Services - Major improvements again mainly related to renewal of rolling stock, plus some electrification and new rolling stock in London and P.T.E. areas. No real price increases.

Clearly, these requirements were heavily dependent on a considerable amount of investment in the replacement of rolling stock, in modern form (capital investment), and in progressive renewal of the infrastructure (revenue investment).

On the Freight side, the proposed changes were summarised in the 1974 Rail Plan as follows:-

"(a) to continue to develop all worthwhile trainload opportunities (to which sector of the freight transport market rail freight services are principally directed), improving progressively the standards of transit performance;

(b) to continue to provide wagonload services - albeit on a selective rather than a systemwide basis - restoring customer confidence by the progressive introduction of modern rolling stock and by demonstrating a consistently high standard of transit performance. The wagonload network would be based primarily, although not exclusively, on the marshalling yards which would be required to support trainload operations;

(c) to renew the freight rolling stock fleet generally with new higher capacity airbraked stock designed to meet emerging customer demands;

(d) to compete for traffics requiring door to door conveyance mainly through Freightliners; otherwise to provide road collection and delivery services only on a selective basis and to withdraw from the present uneconomic general C & D services;

(e) to disengage at an appropriate time from those traffics which, whilst currently worthwhile, cannot support re-investment when this becomes necessary;

(f) to withdraw services from terminals - both private siding and railway depot - where throughput is low in relation to operating expenses."

This strategy amounted to the withdrawal of wagonload services from the 'green field areas at the periphery of the railway system, e.g. from the West Country west of St Austell and in North Devon, from Mid-Wales and from Scotland north of Invergordon'. It involved the abandonment of wagonload traffic opportunities of '1.5m tonnes in 1979, 6.9m tonnes in 1981 and 9.8m tonnes in 1985'. It also encompassed the intention to obtain large real price increases, particularly in the trainload sector.

On the Parcels side, the strategy was referred to as the 'National Parcels Plan' which involved the continuation of a nationwide service but on a 'rationalised' basis. This rationalisation involved considerable investment and concentration on a streamlined service covering a reduced number of terminals. The National Parcels Plan drawn up on this basis was submitted to the Department of the Environment (at that time the Transport Ministry was covered by that Department) in October 1973. The Minister of Transport had required that 'the forward plans of the BRB and the NFC in the parcels field were compatible and would be jointly progressed'. An assurance to this effect had been supplied by both the BRB and the NFC on the joint understanding that the BRB would provide 'a high-speed countrywide collected and delivered network for parcels broadly in the weight range from 0 - 30 lbs, together with the continued development of premium services in the station-to-station market'.

The terminals concentration proposal which required investment

funds was designed to improve the quality of service, reduce costs and was predicted to increase the volume of C & D parcels from 65m packages in 1974 to 82 million in 1981, with that level maintained in 1985. Red Star parcels traffic was expected to improve over the same period by 50% in volume and 75% in receipts - the latter because of real price increases. On the other hand, Post Office letter mail and newspaper receipts were expected to remain constant, with Post Office parcels expected to decline as a result of that organisation's plans for greater use of freightliner and road services.

The overall strategy as outlined above was described in the 1974 Rail Plan as being compatible with the Interim Rail Strategy except to the extent that it was considered that the prospects of the Freight business had improved because of the impact of the Coal Industries Act, 1973 and the energy crisis that developed late in that year. It was expected, in the 1974 Rail Plan, that coal and coke traffic would fall from around 100m tonnes in 1973 to 94m tonnes in 1981 and 93m tonnes in 1985, rather than to 76m tonnes and 65m tonnes as anticipated in the Railway Policy Review. This revision of expectations meant a small increase in the investment requirements for the renewal of locomotives and wagons.

### 11.1.3. Forecasts

The 1974 Rail Plan and supporting papers contained extremely detailed forecasts covering financial and physical issues for the years:-

1974 Base (Budget)

1976 to 1981

1985 Described as the 'snapshot'

Some figures, such as investment, were forecast for the intermediate years 1982 to 1984.

These forecasts are summarised in Appendices as follows:-

Appendix 2(a) - Profit and Loss Forecasts in Constant Prices

2(b) - Investment Forecasts in Constant Prices

2(c) - Selected Physical Facts Forecasts

2(d) - Main Planning (Economic) Assumptions/ Forecasts

3(a) - Profit and Loss Forecasts in Estimated Actual Prices

3(b) - Investment Forecasts in Estimated Actual Prices

These Appendices will also be used to summarise the forecasts contained within the later plans, for ease of reference and comparison. It will be noted that the layout is comparable with that of Appendices 1(a) to 1(d) described in Chapter 6. This is designed to facilitate the comparisons between forecasts and results which will be undertaken in Chapter 16. Appendices 3(a) and 3(b) will be referred to mainly in Chapter 16, rather than in this chapter.

In summary form, the constant price financial forecasts given on Appendix 2(a) are described in Table 11.1.

| | Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1974 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1985 |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Receipts (including Ancillary Income) | | | | | | | | |
| Passenger | 346 | 384 | 403 | 425 | 453 | 475 | 495 | 584 |
| Freight | 243 | 250 | 253 | 260 | 261 | 260 | 260 | 269 |
| Parcels | 78 | 73 | 74 | 76 | 78 | 80 | 82 | 87 |
| Total | 667 | 707 | 730 | 761 | 792 | 815 | 837 | 940 |
| Working Expenses (including Interest) | 867 | 997 | 1033 | 1094 | 1089 | 1112 | 1146 | 1268 |
| Profit/(Loss) before Grants | (200) | (290) | (303) | (333) | (297) | (297) | (309) | (328) |
| Resulting in:- | | | | | | | | |
| P.S.O. Grant | | 287 | 306 | 334 | 309 | 317 | 332 | 363 |
| Non-passenger Profit/(Loss) | | (3) | 3 | 1 | 12 | 20 | 23 | 35 |

N.B. No forecast prepared for 1975

Table 11.1. 1974 Rail Plan - Profit and Loss Forecasts 1974 to 1981 and 1985 (in 1974 Price Levels)

(Source : BRB internal records)

It can be seen that, in constant prices, working expenses were expected to increase faster than receipts. This was forecast to result in an increased level of P.S.O. grant support partly mitigated by an improvement in the profitability of the Non-passenger business. In terms of resources, considerable changes were forecast as shown in Appendix 2(c). These included substantial reductions in locomotives, freight vehicles, parcels coaching vehicles and manpower requirements,

in line with the declared strategy.

The forecast reductions in locomotives were expected to come from the rationalisation of the Freight and Parcels businesses and the development of the high speed train (H.S.T.) and electric advanced passenger train (A.P.T.). The reductions in Freight vehicles and Parcels coaching vehicles were also a reflection of the rationalisation of those businesses. The reductions in locomotive hauled coaching vehicles were in respect of the H.S.T. and A.P.T. developments, the 'sets' referring to power cars and coaches combined. The increase in electric multiple unit numbers was related to further electrification in the London and South East and the P.T.E. areas, which explains the increased electrified route miles and the reductions in the diesel multiple unit fleet. The relatively small reductions in total route/track miles were expected to result from the Freight business rationalisation.

The manpower requirements forecast was a little more complex in that the changes relating to the strategic issues mentioned earlier were expected to be partly offset by the need for 16,000 additional staff, by 1985, to cover changes in conditions of service (i.e. shorter working week and longer holidays). The net reduction between 1976 and 1985 of roundly 12,000 was explained as follows:-

| | |
|---|---|
| Rationalisation, investment and productivity improvements. | - 30,000 |
| New services (mostly L. & S.E. and P.T.E.) | + 2,000 |
| Conditions of Service. | + 16,000 |
| | - 12,000 |

Underlying these forecasts, were the macro-economic predictions, prepared by the BRB's economist, given in Appendix 2(d). In terms of economic activity, these were generally quite favourable but, as will be seen later, far from correct. Inflation (R.P.I.) was forecast to move at a rate considerably below the eventual actual result but, nevertheless, was still quite high. The forecast real increases in receipts and working expenses (staff costs only) were based on the presence of National inflation forecasts of this dimension.

Equally crucial, were the forecasts in respect of investment which are given in Appendix 2(b). As noted earlier, the proposed increases in Revenue Investment were very large and, together with the forecast real increases in staff costs and interest relating mainly to borrowings for capital investment, these had a major impact on the forecast of working expenses. For selected years, this increase in working expenses is summarised in Table 11.2.

Looking at each of the businesses in turn, the financial forecasts can now be examined further, in the light of the information provided so far.

| | Year | | |
|---|---|---|---|
| | 1967 | 1981 | 1985 |
| | £m | £m | £m |
| Increase over 1974 Budget in | | | |
| Revenue Investment | 41 | 77 | 77 |
| Real Staff Costs | 74 | 150 | 196 |
| Interest | 12 | 63 | 103 |
| Other Items | 3 | (11) | 25 |
| Total Working Expenses | 130 | 279 | 401 |

Table 11.2. 1974 Rail Plan - Summary of Forecast Increases in Working Expenses 1976, 1981 and 1985 (in 1974 Price Levels)

(Source : BRB internal records)

The Passenger business was, as noted earlier, expected to require an increased level of P.S.O. grant support (Table 11.1). This was despite a large increase in receipts expected to result from real pricing and volume improvements (see Appendix 2(a) - page 3). This was forecast to result from real increases in staff costs (recorded as 'real price level of working expenses' in Appendix 2(a) - page 3), increased revenue investment, increased depreciation, interest and maintenance costs (as a result of capital investment) and the extra staff required to match the forecast improvements in conditions of service. The predicted manpower reductions discussed earlier were not significantly related to the Passenger business but were expected to result mainly from changes in Freight and Parcels businesses. The net situation was that there was a predicted increase in the P.S.O. grant from a budgeted level

of £203m in 1974 (there was no such grant in 1974 but the budget for that year was converted to a P.S.O. basis for comparative purposes) to £332m in 1981 and £363m in 1985.

This level of P.S.O. grant support was described in the 1974 Corporate Plan as being 'not far removed from those considered in the Railway Policy Review'. Attention was, however, drawn to the fact that this level of support was 'over £350m more than the top limit of £1,500m included in the 1974 Act' during the six year period 1975 to 1981 inclusive. That remark was somewhat misplaced in that the £350m figure was a product of the Plan forecasts in 1974 constant prices but the £1,500m was never stated by Government to be in constant prices. A clearer idea of the problem can be gained from using the forecast P.S.O. grant levels in estimated actual prices, which are reproduced on page 2 of Appendix 3(a). On the evidence of those figures, the £1,500m would run out at the end of 1978 and not 1980 as the remark suggested.

In terms of the volume of trading, it is interesting to note that the Passenger receipts forecast quoted in Table 11.1, required a very large increase. This is reflected in the volume increases in receipts recorded in Appendix 2(a) - page 3 but is further emphasised by examining the forecast passenger miles shown in Appendix 2(c) page 1 and analysed over the four Passenger sectors in Appendix 2(c) page 5. It will be observed that very large increases were forecast in respect of the Inter-city, L. & S.E. and P.T.E. sectors. It should be noted, however, that the investment forecasts related

to the planned growth in P.T.E's passenger miles were to be funded directly by the P.T.E's and did not form part of the investment forecasts provided in Appendix 2(b).

The Non-passenger business was expected, as stated in Table 11.1, to achieve a steady, if not dramatic, increase in profitability. This level of performance, whilst being based upon the Interim Rail Strategy, did not match the forecast profitability expectation contained within the financial forecasts relating to that strategy (Railway Policy Review document presented to the Board on 22 January 1974). Over the six years 1976 to 1981, the forecast profit in the Railway Policy Review had dropped from £293m to £56m in the 1974 Rail Plan. This decline was caused partly by an increased forecast for real staff cost improvements, increased estimates of resource requirements (mainly manpower) and an increased level of interest related to a higher than anticipated commencing figure and a higher predicted rate of interest. However, the most significant feature related to the fact that, in the Railway Policy Review, the level of indirect costs (track and signalling and administration) which would be charged to the Non-passenger business under the avoidability rules of the P.S.O. grant, was underestimated. Thus, whilst it appeared that the 1974 Rail Plan P.S.O. grant was close to the Railway Passenger Review forecast (an increase of £50m over the six years 1976 to 1981), it was acknowledged in the 1974 Rail Plan that a significant proportion of the Non-passenger difference (£125m) really related to the Passenger business.

The forecast profits of the Non-passenger business were, in fact, related largely to the Parcels business, as can be seen from the figures given in Table 11.3.

| | Forecast Profit/(Loss) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1974 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1985 |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Parcels business | 8 | 5 | 13 | 13 | 16 | 21 | 23 | 36 |
| Freight business | (5) | (8) | (10) | (14) | (4) | (1) | - | (1) |
| | 3 | (3) | 3 | 1 | 12 | 20 | 23 | 35 |
| Ancillary Income included in Freight business forecast | 11 | 12 | 14 | 17 | 18 | 17 | 18 | 17 |

Table 11.3. 1974 Rail Plan - Analysis of Non-Passenger Business Profits 1974, 1976 to 1981 and 1985 (in 1974 Price Levels)

(Source : BRB internal records)

In common with subsequent practice, the Ancillary Income relating to the Non-passenger business was credited to the Freight business (since its elements such as profits on the letting of Operational Property are nearly always ancillary to the Freight activity) but it can be readily observed how much worse the forecast would have been without that feature.

In the 1974 Rail Plan commentary, the Board expressed its disappointment with the forecast profit results of the Freight business but added that 'Nevertheless, the results confirm the conclusions of earlier studies in the Railway Policy Review

that, in the longer term, a Freight business continuing to provide both trainload and modernised wagonload services will bear its appropriate share of system expenses.' This remark was based on the assumption that the Ancillary Income should be counted as part of the Freight business profitability assessment.

In terms of the volume of business, it was anticipated that Freight receipts would increase, in constant prices, from £243m in 1974 to £260m in 1981 and £269m in 1985. However, these figures included Ancillary Income of £11m, £18m and £17m, respectively. Thus, in traffic terms, the Freight receipts forecasts were £232m in 1974, £242m in 1981 and £252m in 1985. These figures allowed for a considerable level of real pricing, as recorded in Appendix 2(a) - page 3 and a reduction in the volume of receipts. This reduction was related mainly to the reduction in higher-rated wagonload traffic offset by a similar quantity of lower-rated trainload traffic, much of which was expected to be carried in privately owned wagons (57m tonnes in 1981 compared with 37m tonnes in 1973).

In terms of tonnes, it was forecast that these would be as portrayed in Appendix 2(c) page 1 and analysed in Appendix 2(c) page 6;that is a substantial reduction in wagonload traffic offset by an even larger increase in trainload traffic.

Working expenses were forecast to decline as a result of the resource reductions but this improvement was predicted to be offset by real staff costs increases, improvements in conditions

of service, depreciation and interest on new locomotives and wagons and a small proportion of the increased revenue investment. Interest alone was forecast to move from £11m in 1974 to £30m in 1981 and £43m in 1985 as a result of cash shortfalls caused by capital investment not being funded by profits and having, instead, to be borrowed.

The Parcels business was seen as the big potential success area of the Non-passenger business with the working expenses reductions producing the large improvements in profits given in Table 11.3. Because of these forecast profits, it was estimated that, in the later years of the Plan, the Parcels business would 'earn' rather than pay interest and would, in practice, be lending its surplus funds to the Freight business. The interest forecasts were £1m (paid) in 1974, £6m (earned) in 1981 and £17m (earned in 1985. As can be seen in Appendix 2(a) - page 1, Parcels receipts were forecast to decline slightly in 1976 but steadily grow to £4m more than in 1974 by 1981 and £9m more by 1985.

There was no risk analysis or sensitivity analysis prepared in respect of the 1974 Rail Plan. However, a number of references to risk areas were made in the supporting text.

In respect of the Passenger business, the main risk areas were seen as being:-

(a) The possibility of further Government price restraint. The Plan assumed that none would operate from 1 January 1976.

(b) The lack of commitment by the Government to the levels of

investment which were an essential feature of the Interim Rail Strategy. It was pointed out that 'Government acceptance of the principle of the interim strategy was not accompanied by any commitment to the levels of investment needed to implement it.'

In respect of the Freight business, the risk areas identified were:-

(a) The possibility that the macro-economic assumptions on which the plan was based might not be achieved.

(b) Doubts about the ability of the National Coal Board to achieve the planned higher levels of output within the timescale envisaged.

(c) Further Government price restraint.

On the Parcels side, only one risk was identified and that related to the ability of the Board to implement the depot rationalisation programme, because of its attendant industrial relations difficulties in the timescale planned (by 1977).

In a separate 1974 BRB Corporate Plan commentary, under the heading of 'Areas of Risk and Uncertainty', these risk areas were repeated and three others were mentioned, viz:-

'(a) The possibility of industrial disputes, for which no provision was made in the Rail Plan or any of the other business plans.

(b) Uncertainty about the level of real increases in staff costs.

(c) The possibility that insufficient allowance had been made

for real price increases to keep pace with real cost increases, particularly during periods of high-rate inflation.'

In fact, by the time the consolidated Corporate/Rail Plan document was finally put together (dated December 1974 - entitled the 'Third Corporate Plan'), the BRB were able to include a number of further comments which were related, to a large extent, to the risk areas mentioned. In a 'Corporate Appraisal' section of the consolidated document, the then latest situation was summed up in the following paragraph:-

'Since the preparation of the Plan was started early in 1974, there have been changes which have affected the base of the Plan and for which adjustment should be made: the principal features are (i) the economic indicators used for forecasting have changed considerably; and (ii) the emerging results for 1974 have recorded a widening gap between the level of expenses and receipts.'

Additionally, in the Investment section of the Rail Plan text, attention was drawn to the fact that it was already clear that the Government might not support the investment intentions of the Rail Plan as evidenced by then recent cuts in the programmed investment ceilings up to 1977. These were compared with the Rail Plan intentions as shown in Table 11.4.

| | Total Investment (£m) | | | | |
|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 |
| Rail Plan Forecast | 160 | 210 | 254 | 274 | 311 |
| Interim Railway Strategy | 226 | 269 | 287 | 301 | 304 |
| Latest Government Ceiling (July 1974) | 160 | 180 | 217 | 239 | 300 * |

* Estimated by the BRB in the absence of a firm Government ceiling.

Table 11.4. 1974 Rail Plan - Investment Comparisons 1974 to 1978 (in 1974 Price Levels)

(Source : BRB internal records)

These issues were to prove crucial to the emerging results and to the integrity of the 1974 Rail Plan and, as a consequence the 1974 Corporate Plan. The emerging results will not be examined here but will form a significant part of the analysis which will be conducted in Chapter 16. Instead, it is intended to move on to the next Railways business plan which was prepared in the light of the developing circumstances.

## 11.2. Railways Business Plan 1975

The 1975 Rail Plan (or Fourth Rail Plan) was only ever completed in draft form because its forecasts were unacceptable to the BRB. Consequently, it became known as the Draft 1975 Rail Plan or, like some of the subsequent plans, the 1975 Rail Review. Consequently, there was no 1975 Corporate Plan. The draft plans of the businesses were consolidated, however, in a brief document entitled 'Business Planning Data 1976 - 1981', dated December 1975. In this document, attention was drawn to the inadequacy of the forecasts, notably for the Railways

business and emphasis was placed on the fact that the consolidated document was not a corporate plan. For this reason, unlike the 1974 Corporate Plan, it was not formally submitted to the Department of the Environment.

However, since it was an important milestone in the corporate planning activities of the BRB, it is now intended to analyse the content of the 1975 Railways Business Review. This will be done in a similar manner to the 1974 Rail Plan.

11.2.1. Objectives

No attempt was made to develop objectives in the 1975 Rail Review. Instead, the 'Business Planning Data 1975 - 1981' document merely stated that 'The draft business plans assumed a broad continuation of the primary objectives of the Board on which previous Corporate Plans were based.'

11.2.2. Strategy

In strict terms, the 1975 Rail Review did not encompass a fresh strategy, nor did it confirm the strategy developed in the 1974 Rail Plan. Instead, it gave recognition to the serious problems which had emerged since the 1974 Rail Plan was completed. The words used in the 'Business Planning Data 1976 to 1981' document were as follows:-

> '.....In particular the draft plans followed the Interim Rail Strategy outlined in the Railway Policy Review, although it is now clear that this strategy must be regarded as having been abandoned by Government. No alternative long-term rail strategy has yet emerged.'

The term 'abandonment' was related to the adjustments to the 1974 Rail Plan strategy which the BRB felt compelled to include in the 1975 Rail Review. These adjustments were as follows:-

(a) Passenger

(i) Inter-city - A slow down in the introduction of HST and APT sets.

- Additional real pricing, leading to significant reductions in passenger miles.

(ii) Local Passenger Services - A slow down in major improvements, including electrification and new rolling stock in London and P.T.E. areas. Significantly higher real fare increases and consequent reductions in passenger miles.

(b) Freight

Continuation of the trainload/selective wagonload concept but with a substantial decrease in investment, involving delay in construction of new air-braked wagons and locomotives.

(c) Parcels

Continuation of the National Parcels Plan strategy but with implementation scheduled for 1978 rather than 1977. More restrained view of real pricing potential in the S to S sector with a bigger share of Post Office parcels than previously anticipated.

11.2.3. Forecasts

The 'Business Planning Data 1976 to 1981' document did not

contain as much detail as the 1974 Rail Plan. However, by reference to supporting papers and files, it has been possible to piece together as much information as hitherto, for the following years:-

1975 Base (Budget)

1976 to 1981

1985 ('Snapshot')

Again, some figures such as investment were forecast for the intermediate years 1982 to 1984.

As for the 1974 Rail Plan, the 1975 Rail Review figures are recorded in Appendices 2(a) to 2(d), 3(a) and 3(b). In summary form, the constant price financial forecasts given as Appendix 2(a) are described in Table 11.5.

Similarly to the 1974 Rail Plan, it was anticipated that working expenses would increase faster than receipts, in constant prices. This was again forecast to result in an increased level of P.S.O. grant, partly mitigated by an improvement in the profitability of the Non-passenger business. However, the P.S.O. forecast trend was at a much higher level owing to the change of price base (1974 budget to 1975 budget). Additionally, the 1975 Rail Review commenced with a large Non-passenger loss (£68m) which was not a feature of the 1974 Rail Plan. However, since this was considered to be a feature which was largely related to a temporary recession and because of higher anticipated real price increases, the profits forecast for 1981 and 1985 were close to (in fact a little above) those contained in the 1974 Rail Plans.Unusually, the deferment of locomotive

| | Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1985 |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Receipts (including Ancillaries) | | | | | | | | |
| Passenger | 457 | 479 | 503 | 523 | 549 | 571 | 598 | 688 |
| Freight | 294 | 314 | 330 | 341 | 342 | 345 | 347 | 354 |
| Parcels | 93 | 97 | 94 | 96 | 99 | 101 | 103 | 107 |
| Total | 844 | 890 | 927 | 960 | 990 | 1017 | 1048 | 1149 |
| Working Expenses (including Interest) | 1255 | 1284 | 1339 | 1369 | 1401 | 1431 | 1448 | 1583 |
| Profit/(Loss) before Grants | (411) | (394) | (412) | (409) | (411) | (414) | (400) | (434) |
| Resulting in:- PSO Grant | 343 | 353 | 373 | 396 | 404 | 420 | 428 | 481 |
| Non-passenger Profit/(Loss) | (68) | (41) | (39) | (13) | (7) | 6 | 28 | 47 |

Table 11.5. 1975 Rail Review - Profit and Loss Forecasts 1974 to 1981 and 1985 (in 1975 Price Levels)

(Source: BRB internal records)

replacement was seen as of medium-term benefit to the Non-passenger business, in that it reduced the depreciation and interest charge without a proportionate decline in receipts.

The key resources changes contained within the 1975 Rail Review are provided in Appendix 2(c). Compared with the 1974 Rail Plan figures, also recorded in Appendix 2(c), the 1975 Rail Plan forecasts reflected the revisions to the implementation of the overall strategy. In particular, the following aspects can be readily observed:-

a) Slowing down of locomotive reductions until 1980 after which

a faster rundown was expected.

b) Slowing down of H.S.T. construction again until 1980.

c) Slowing down of A.P.T. construction with 32 fewer sets in 1985.

d) Slowing down of electric multiple unit construction and related reduction in diesel multiple units.

e) Slowing down of the reductions in manpower requirements up to 1980 with a faster rate of change from 1981 mainly related to lower forecast improvements in conditions of service (+13,360 compared with +16,000 contained within the 1974 Rail Plan).

Again, underlying these forecasts were the macro-economic forecasts which are given in Appendix 2(d). In terms of Gross Domestic Product, Industrial Production and Consumers' Expenditure, these were considerably less favourable than those used in the 1974 Rail Plan.

The reduction in the investment forecasts between the 1974 Rail Plan and the 1975 Rail Review were very considerable. These can be seen in Appendix 2(b) and stem from the points made earlier about the Government supporting the Interim Rail Strategy but not necessarily the investment required to implement it. However, it can be seen that both revenue and capital investment were still forecast to increase over the Review years. As in the 1974 Rail Plan, this factor was accompanied in the 1975 Rail Review by large forecast increases in Real Staff Costs and Interest. For selected years, the overall increase in working expenses is summarised in Table 11.6.

| | Year | | |
|---|---|---|---|
| | 1976 | 1981 | 1985 |
| | £m | £m | £m |
| Increase/(Decrease) over 1975 Budget in | | | |
| Revenue Investment | 5 | 57 | 52 |
| Real Staff Costs | 11 | 113 | 205 |
| Depreciation | (13) | 17 | 53 |
| Interest | 14 | 75 | 127 |
| Other Items (mainly resource reductions) | 12 | (69) | (109) |
| | 29 | 193 | 328 |

Table 11.6. 1975 Rail Review - Summary of Forecast Increases in Working Expenses 1976, 1981 and 1985 (in 1975 Price Levels)

(Source : BRB internal records)

Looking at each of the businesses within the Railways business in turn, the 1975 Rail Review financial forecasts can now be examined further in similar fashion to the description of the 1974 Rail Plan.

The Passenger P.S.O. grant, which was forecast to increase, in constant prices, from £343m in 1975 to £428m in 1981 and £481m in 1985, was very heavily influenced by the working expenses increases summarised in Table 11.6. These were forecast not to be wholly counteracted by the real price increases and volume growth figures recorded in Appendix 2(a) - page 3. In terms of the volume of business, as demonstrated by increases in Passenger Miles, the forecasts were as given in Appendix

2(c) - page 1 and analysed over the four Passenger sectors in Appendix 2(c) - page 5. It will be observed that the combined P.T.E./Other Provincial sectors Passenger miles were similar to those forecast in the 1974 Rail Plan. In respect of the Inter-city and L. & S.E. sectors, however, the growth expectations were considerably lower, reflecting the changes in the strategy and the revised macro-economic forecasts (particularly Consumers' Expenditure) recorded in Appendix 2(d).

The Non-passenger business was expected, as stated in Table 11.5, to gradually convert the budgeted loss of £68 in 1975 to a profit of £6m in 1980, £28m in 1981 and £47m in 1985. Much of this improvement was expected to result from real price increases in the Freight business rather than improvements in the volume of carryings (see Appendix 2(a) - page 3). The analysis of the profit and loss forecast was as depicted in Table 11.7. In comparing these figures with those given in Table 11.3, it will be clear that the substantial deterioration in the forecasts affected both Freight and Parcels. However, in the 1975 Rail Review the Freight profit/loss was forecast to recover much faster and, by 1981, be £17m higher than the 1974 Rail Plan prediction. This recovery was also forecast to continue to 1985 which was expected to be £36m higher. The Parcels forecasts remained considerably lower than those contained in the 1974 Rail Plan.

In terms of the volume of business, it was anticipated that Freight receipts would increase from £294m in 1975 to £347m

| | Forecast Profit/(Loss) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1985 |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Parcels business | (9) | (8) | (6) | 4 | 9 | 10 | 11 | 12 |
| Freight business | (59) | (33) | (33) | (17) | (16) | (4) | 17 | 35 |
| | (68) | (41) | (39) | (13) | (7) | 6 | 28 | 47 |
| Ancillary Income Included in Freight business forecast | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 11 |

Table 11.7. 1975 Rail Review - Analysis of Non-passenger Business Profits 1975 to 1981 and 1985 (in 1975 Price Levels)

(Source : BRB internal records)

in 1981 and £354m in 1985 but that this would include real price increases of £54m by 1981 and £53m by 1985. Thus, in strict volume terms, a reduction of £1m was forecast by 1981 and an improvement of £7m by 1985, both compared with the 1975 base year (see Appendix 2(a) - page 3). The associated tonnes forecasts were as depicted in Appendix 2(c) - page 6. It can be seen that marginally higher tonnes were forecast, compared with the 1974 Rail Plan, from 1977 onwards. The expected reduction in wagonload carryings was very close to the 1974 forecast.

Once again, the forecast receipts volume improvements were lower than the forecast tonnes would suggest. This was related to the forecast increases in lower-rated trainload traffic being offset by decreases in the higher-rated wagonload traffic.

Working expenses were forecast to decline sharply as a result of the resource reductions, offset partly by increases in real staff costs, improvements in conditions of service, depreciation and interest on new locomotives and wagons and a small proportion of the increased revenue investment.

The Parcels business profit forecast was seen by the BRB as being particularly disappointing, especially compared with the 1974 Rail Plan prediction. The problem basically stemmed from a change in the base position. The 1974 Rail Plan was based on a budgeted profit of £8m in 1974 (Table 11.3). By the time the 1975 Rail Review was prepared, the recession and the working expenses price increases (notably the 1974 and 1975 pay increases) had eroded that profit and a loss of £9m was budgeted for 1975 (see Table 11.7). The rate of recovery was in many ways consistent with the rate of improvement in the 1974 Rail Plan but the change in the base position meant forecast losses up to 1977 and much smaller profits thereafter. For this reason, these profits no longer contained 'earned' interest as contained in the 1974 Rail Plan.

There was no risk or sensitivity analysis prepared in respect of the 1975 Rail Review. However, a number of areas were raised in the Business Planning Data 1976 - 1981 document and in an internal report to the Chief Executive Railways prepared in the Corporate Planning Department, dated 2 September 1975. These risk areas were:-

a) Investment - Although the investment forecasts were lower than those contained in the 1974 Rail Plan, it

was considered likely but not certain that the predicted increases included in the 1975 Rail Review would be allowed by Government.

b) Economic Activity - It was considered that there was some possibility that the recovery in the economy anticipated in the macro-economic assumptions (see Appendix 2(d)) would not be achieved.

c) Real Staff Costs Improvements - These could be higher or lower than forecast, as could be predicted improvements in conditions of service.

d) Industrial Disputes - None was contained within the forecasts.

e) Parcels Business - The whole of the National Parcels Plan was considered to be at risk because of the deterioration in the base profitability, continued delays in implementation (largely connected with the industrial relations implications) and a re-appraisal of the market potential, in relation to other publicly owned parcels carriers.

f) Freight Business - The rate of cost escapement could be too ambitious. This could worsen the results by as much as £105m over the six years 1976 to 1981.

These risk areas, coupled with the general dissatisfaction of the BRB with the forecast results, made it impossible for the Board to adopt the 1975 Rail Review as a formal plan and it was instead decided to pursue the search for an alternative strategy for each of the three Railways businesses. This search began in earnest in 1975 and was to take about four years to complete.

## 11.3. Railways Business Plan 1978

During the years 1975 to 1977 most of the strategic effort was put into the Freight business through an attempt to develop a strategy which would ensure a much more satisfactory financial future than was suggested in the 1975 Rail Review. The 'Passenger Business Strategy Studies' and the 'Parcels Business Strategy Studies' discussed in Chapter 10 were not completed when the decision was made to compile a 1978 Rail Plan. For this reason, it was decided later to use the term 'Review' rather than 'Plan' to describe the final document. Production of the 1978 Rail Review commenced in October 1977 and it was completed in late Spring 1978.

The BRB Corporate Plan (later referred to as the Corporate Review) was completed in the Autumn of 1978 and submitted to the Secretary of State for Transport on 14 November 1978. That document contained the main elements of the 1978 Rail Review, although a few (relatively minor) changes were incorporated mainly to allow for a later view of the base year (1978) forecast and updated expectations for 1979.

An intermediate 'review' had been prepared in 1977, known as the 'Special Autumn Plan - Railways Business'. That document updated the Passenger and Parcels forecasts under the old strategies and adopted the newly developed Freight strategy. It was prepared very quickly to give some guidance as to the overall position of the Railways business pending completion of the 1978 Rail Review. Because it was not different in a strategic sense to the 1978 Rail Review and was not regarded by

the BRB as a formal part of what was meant to be an annual Rail Plan production process, the Special Autumn Plan 1977 will not be referred to further in this chapter.

11.3.1. Objectives

The 1978 Rail Review document did not identify any new objectives for the Parcels business but, in respect of the Freight business, the statement was made that 'The Business Plan for Freight is based upon the strategic objective of the Freight Sector Study: a business catering predominantly for trainload bulk traffic, but also providing selective wagonload services which aim at maximising profit after satisfying its requirements for re-investment.' However, recognition was given to the newly created P.S.O. cash limit (see Chapter 6) in that comparisons were made between the forecast P.S.O. grants and the likely levels of that cash limit.

11.3.2. Strategy

Pending completion of the strategic reviews of the Passenger and Parcels businesses, only an interim strategy could be declared for those businesses. However, as noted earlier a revised strategy had been prepared for the Freight business. This had, in fact, been discussed with civil servants from the Department of Transport and was accepted as the appropriate course of action.

The strategy contained within the 1978 Rail Review was thus as follows:-

(a) Passenger

Inter-city -

Improvements in train speeds through continuing (albeit more slowly than originally intended because of lower than expected investment ceilings - past and future) introduction of H.S.T. trains followed by commencement of the introduction of the A.P.T. in 1982. Real price increases in association with these developments.

London and South East -

Some electrification projects and replacement of a small number of electric multiple units. Real price increases of 3% per annum.

P.T.E's -

Extensions to the electrified commuter networks in Glasgow, Liverpool and Manchester (funded by the P.T.E's).

Other Provincial -

No direct investment but some improvements resulting from the 'cascading' of rolling stock from other sectors. Withdrawal of a proportion of lightly used services with an associated reduction in receipts of approximately £4m.

(b) Freight

Trainload -

Continued concentration on maximisation of all opportunities in this sector.

Wagonload -

Elimination of all traffic requiring handling or cartage at B.R. depots by pricing action by 1983.

Withdrawal of wagonload services from all 'greenfield' areas by 1988.

Development of a 'line of route' wagonload service using air-braked wagons, described as 'Speedlink'. In fact this line of route development had started in a small way in 1972 and was implicit in the air-braked wagon construction programme contained within the 1974 Rail Plan and the 1975 Rail Review. Now it was anticipated that the Speedlink service would be expanded to about 100 services by 1982 serving most industrial centres.

Continuation of any local wagonload services which would command 'satisfactory revenues and resources productivity standards'.

(c) Parcels

C & D Parcels -

Recognition of increasing losses in this sector, due to intense competition and the low investment ceilings, had produced the view that it would be better to withdraw from this sector but this view was rejected because of 'industrial relations constraints'. Instead, it was decided to 'use price increases to regulate traffic where the drop in the amount of traffic will allow a high proportion of costs to be saved quickly. The intention is to save £10m by the end of 1982.'

S to S Parcels -

Maintain high quality of service in Red Star and R.P.T. parcels to 'keep growth at 5% per annum over the next four years while permitting further real price increases. Thereafter, growth will be less with no pricing opportunities.'

Lower Post Office letter mails due to development of Post Office road haulage, but maintenance of Post Office parcels

market share.

Maintenance of Newspapers market share by real price reductions.

11.3.3. Forecasts

The 1978 Rail Review contained detailed forecasts in respect of the following years:-

1978 Base (budget)

1979 to 1983

1988

Again, some figures such as investment were forecast for the intermediate years 1984 to 1987.

The forecasts are recorded in Appendices 2(a) to 2(d), 3(a) and 3(b). However, in summary form, the figures given in Appendix 2(a) are as described in Table 11.8. It can be seen that, in this Review, it was forecast that the P.S.O. Grant would stay fairly level until 1983 but would increase to £493m in 1988. This increase was related mainly to real staff cost increases. The Review estimated that the newly created P.S.O. cash limit would be £490m in 1978 and £470m in 1983, the forecast results being within those amounts. It did not contain an estimate of the 1988 P.S.O. cash limit but speculated that the forecast result would be in excess of the limit and that 'the requirement would exceed the ceiling by about 1986'. On the Non-passenger side, the 1978 Rail Review forecast very large increases in profits from £7m in 1978 to £124m in 1980 and £175m in 1988. These were based mainly on the large resource reductions anticipated to stem from implementation of the new

Freight strategy.

| | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1988 |
| | £m | £m | £m | £m | £m | £m | £m |
| Receipts (including Ancillaries) | | | | | | | |
| Passenger | 691 | 715 | 738 | 753 | 778 | 804 | 911 |
| Freight | 424 | 446 | 457 | 465 | 473 | 481 | 469 |
| Parcels | 123 | 119 | 118 | 118 | 120 | 120 | 117 |
| Total | 1238 | 1280 | 1313 | 1336 | 1371 | 1405 | 1497 |
| Working Expenses (including Interest) | 1674 | 1691 | 1685 | 1702 | 1713 | 1722 | 1815 |
| Profit/(Loss) before Grants | (436) | (411) | (372) | (366) | (342) | (317) | (318) |
| Resulting in:- | | | | | | | |
| PSO Grant | 443 | 451 | 438 | 451 | 445 | 441 | 493 |
| Non-passenger Profit/(Loss) | 7 | 40 | 66 | 85 | 103 | 124 | 175 |

Table 11.8. 1978 Rail Review - Profit and Loss Forecasts 1978 to 1983 and 1988 (in 1978 Price Levels)

(Source : BRB internal records)

Indeed, contrary to the trends in the 1974 Rail Plan and the 1975 Rail Review, the 1978 Rail Review anticipated that working expenses would not increase faster than receipts, despite large increases in real staff costs. This was based largely upon volume increases in Passenger receipts (better £166m by 1988) and decreases in the volume of working expenses (better £119m by 1988), the latter figure relating mainly to the reduction in Freight resources.

The key resource changes contained within the 1978 Rail Review

are provided in Appendix 2(c). A comparison with the 1975 Rail Review is not particularly important at this stage and, in any case is rendered difficult by the changes in the years being forecast. Suffice it to say that the reductions in manpower and Freight Vehicles were more ambitious than hitherto and were related mainly to the new Freight strategy. The forecast reductions in route miles also reflected that strategy, together with the withdrawal of a relatively small number of Other Provincial Passenger services.

The macro-economic forecasts are given in Appendix 2(d) where, it can be observed that a fairly buoyant economy was predicted, as measured in terms of Gross Domestic Product, Industrial Production and Consumers' Expenditure. The improvements were forecast to be similar in dimension to those contained within the 1974 Rail Plan.

The investment forecasts are provided in Appendix 2(b). Once again, it was forecast that increased investment would be permitted by Government with the 1978 budget of £311m increasing to £372m in 1983 and £398m in 1988 (in 1978 constant prices). Nearly all of the increase was planned to be spent on capital investment, with almost all of this increase being related to Passenger rolling stock, including H.S.T./A.P.T. construction, and related maintenance facilities.

Total working expenses were not forecast to increase as much as in the 1975 Review because of the expected reduction in resources. The increases in selected years are summarised in

Table 11.9.

| | Year | |
|---|---|---|
| | 1983 | 1988 |
| | £m | £m |
| Increase/(Decrease) over 1978 Budget in | | |
| Revenue Investment | 1 | 4 |
| Real Staff Costs | 120 | 260 |
| Depreciation/Replacement Allowance | 16 | 47 |
| Interest | (14) | (38) |
| Other Items (mainly resource reductions) | (75) | (132) |
| Total Working Expenses | 48 | 141 |

Table 11.9. 1978 Rail Review - Summary of Forecast Increases in Working Expenses 1983 and 1988 (in 1978 Price Levels)

(Source : BRB internal records)

The forecast improvement in 'other items' was related to the resource reductions mentioned earlier. The improvement in Interest reflected the large forecast Non-passenger profits which were expected to place that business in an interest 'earning' capacity amounting to £11m in 1983 and £56m in 1985. This latter figure was not far short of the expected interest payment forecast (£61m) of the Passenger business.

Looking at each of the three businesses within the Railways business in turn, the 1978 Rail Review forecasts can now be considered similarly to the 1974 Plan / 1975 Review.

In respect of the Passenger business it has already been noted

that the P.S.O. grant was forecast to remain fairly constant between 1978 (£443m) and 1983 (£441m) but to increase by 1988 to £493m, all figures in 1978 price levels. During those years, receipts were forecast to increase very considerably, mostly in respect of volume (£88m by 1983 and £166m by 1988) but also in respect of real prices (£25m by 1983 and £54m by 1988). This was not anticipated, however, to be sufficient to pay for the Passenger share of the forecast increases in real staff costs. In terms of the volume of carryings, as demonstrated by Passenger Miles, the forecasts were as given in Appendix 2(c) - page 1 and analysed over the four Passenger sectors in Appendix 2(c) - page 5. It will be observed that the expected pattern of growth was similar to that recorded in respect of the 1975 Rail Review, allowing for a lower base level in 1978. This reflected a similar pattern of growth in U.K. Consumers' Expenditure to that forecast in the 1975 review - see Appendix 2(d).

The Non-passenger business profit forecast, which provided for the large improvement discussed earlier was analysed as shown in Table 11.10. It can be seen that the Parcels business profit of £5m in 1978 was forecast to improve to £12m by 1983 but fall back to £6m by 1988. This deterioration was expected to result from an inability to match real staff cost increases with either real price increases or volume growth.

The Freight business profits forecasts were in marked contrast to those contained within the 1975 Review (see Table 11.7.) reflecting the forecast apparent success of the chosen strategy.

| | Forecast Profit/(Loss) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1988 |
| | £m | £m | £m | £m | £m | £m | £m |
| Parcels Business | 5 | 7 | 7 | 8 | 12 | 12 | 6 |
| Freight Business | 2 | 33 | 59 | 77 | 91 | 112 | 169 |
| | 7 | 40 | 66 | 85 | 103 | 124 | 175 |
| Ancillary Income | | | | | | | |
| Included in Freight Business Forecast | 14 | 15 | 15 | 16 | 17 | 18 | 20 |

Table 11.10. 1978 Rail Review - Analysis of Non-passenger Profits 1978 to 1983 and 1985 (in 1978 Price Levels)

(Source : BRB internal records)

The forecast interest 'earned' amounted to £9m in 1983 and £51m in 1988, as a consequence of the anticipated profit (before interest) being greater than the investment requirements of the Freight business. The associated tonnage forecasts for the sectors of the Freight business were as depicted in Appendix 2(c) - page 6. It can be seen that the overall carryings were expected to be considerably lower than in the earlier forecasts, reflecting major reductions experienced in the four years prior to the base year 1978 and a lower wagonload tonnes forecast as a result of the revised strategy.

Unlike the 1974 Plan and the 1975 Review, the changes in total tonnes up to 1983, compared with the base year, were fairly consistent with the receipts volume growth (see Appendix 2(a) - page 4). This was because of the considerably lower wagonload content at the start of the 1978 Review and the smaller

reductions predicted up to 1983. However, the high-rated wagonload tonnes forecast reductions between 1983 and 1985, offset by the low-rated trainload increases, show the previously discussed pattern of reduced volume of receipts between those years.

The Parcels business profit forecast was seen by the BRB as being disappointing in that the forecast low profits were not sufficient 'to provide for replacement-cost depreciation.'

A formal risk analysis was conducted in respect of the 1978 Rail Plan using the statistical method noted in Chapter 10. A summary of the net effect of applying this method is provided in Table 11.11. It will be observed that, at 'worst', the P.S.O. grant requirement would increase from £424m in 1978 to £494m in 1983 and £549m in 1988, all figures in constant prices. Given these results, the expected P.S.O. cash limit would be exceeded in 1981 and in each subsequent year. However, on the Freight side, even the 'worst' profit forecasts were considerably better than all previous Rail Plan/Review expectations. It will be seen in Chapter 16 and in the next two sections that the parameters forecast within this risk analysis were far from accurate.

It was noted at the beginning of this section that the 1978 Rail Review was not regarded as a Plan because of its inadequate strategic content i.e. the Passenger and Parcels Sector Strategic Studies were not completed. Nevertheless, it was accepted by the BRB as a major milestone in the development of

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1988 |
| | £m | £m | £m | £m | £m | £m |
| Passenger - PSO Grant | | | | | | |
| Rail Review | 451 | 438 | 451 | 445 | 441 | 493 |
| Risk Analysis - Mean | 461 | 450 | 466 | 461 | 461 | 488 |
| - Best | 449 | 434 | 444 | 434 | 428 | 427 |
| - Worst | 473 | 466 | 488 | 488 | 494 | 549 |
| Freight - Profit/(Loss) | | | | | | |
| Rail Review | 33 | 59 | 77 | 91 | 112 | 169 |
| Risk Analysis - Mean | 4 | 38 | 60 | 77 | 98 | 148 |
| - Best | 11 | 48 | 73 | 93 | 118 | 188 |
| - Worst | (3) | 28 | 47 | 51 | 78 | 108 |
| Parcels - Profit/(Loss) | | | | | | |
| Rail Review | 7 | 7 | 8 | 12 | 12 | 6 |
| Risk Analysis - Mean | 1 | 5 | 6 | 10 | 11 | 8 |
| - Best | 3 | 7 | 8 | 13 | 14 | 13 |
| - Worst | (1) | 3 | 4 | 7 | 8 | 3 |

Table 11.11. 1978 Rail Review - Summary of Risk Analysis 1979 to 1983 and 1988 (in 1978 Price Levels)

(Source : BRB internal records)

the Freight business. It also indicated that the Parcels business could make small profits and that the Passenger business could work within its forecast P.S.O. cash limit until about 1986.

## 11.4. Railways Business Plan 1979

The 1979 Rail Review was produced in August 1979 and consolidated into the BRB Corporate Review document which was submitted to the Minister for Transport on 25 October 1979. In many ways, it was an update of the 1978 Rail Review, the revised Passenger and

Parcels strategies still not having been finally determined.

11.4.1. Objectives

No fresh objectives were developed during the production of the 1979 Rail Review and those used in the 1978 Review were carried forward i.e.

- Passenger P.S.O. to be within the forecast cash limit.
- Freight Profit to be 'maximised'.
- Parcels business to at least break even.

However, late in 1979, the Interim Targets for Freight, Parcels and the Inter-city sector of the Passenger business, discussed in Chapter 6, were agreed between the BRB and the Department of Transport and were quoted in the Corporate Review. It was too late for any significant further direct reference to be made to these interim targets which were merely noted in the introduction. The necessary calculations were not made in the remainder of the Rail Review document to make a direct comparison with those interim targets.

11.4.2. Strategy

The strategy contained within the 1979 Rail Review was as follows:-

(a) Passenger

System Size -

Service levels to be adjusted to recognise views of traffic growth emerging from the Passenger Business Strategy Study (slightly higher than those envisaged in the 1978 Rail Review). Withdrawal of 40 Other Provincial services which 'under any concept of value for money would be unlikely to

remain.'

Real Pricing -

On Inter-city services only where product improvement occurs.

On London and South East - 1% in 1980 and 3% per annum thereafter.

Investment -

Lower over overall investment compared with the 1978 Review (5% overall) permitting:-

Construction programme for H.S.T./A.P.T. of about 20 sets per annum.

Replacement of about 175 diesel multiple units per annum from 1974.

Continuation of minor electrification projects included in the 1978 Rail Review.

(b) Freight

Continuation of the Freight strategy contained within the 1978 Rail Review.

(c) Parcels

Continuation of the 'holding' strategy contained within the 1978 Rail Review.

11.4.3. Forecasts

The 1979 Rail Review contained detailed forecasts for the following years:-

1979 Base (budget)

1980 to 1984

1989

Unlike the 1978 Review a risk analysis (using the same method as in the 1978 Review) was fully incorporated into the forecasts and the final figures were the mean forecasts of the risk analysis. This process was very time consuming and was neither repeated in the 1980 Rail Plan nor, it is understood, will be used again. Instead, in future, the risk analysis forecasts will be used by the BRB as supplementary data, as in respect of the 1978 Rail Review.

The forecasts are recorded in Appendices 2(a) to 2(b), 3(a) and 3(b). However, in summary form, the figures given in Appendix 2(a) are described in Table 11.12.

| | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1989 |
| | £m | £m | £m | £m | £m | £m | £m |
| Receipts (including Ancillaries) | | | | | | | |
| Passenger | 793 | 818 | 837 | 858 | 877 | 894 | 964 |
| Freight | 461 | 471 | 483 | 492 | 502 | 511 | 515 |
| Parcels | 125 | 125 | 125 | 126 | 126 | 127 | 123 |
| Total | 1379 | 1414 | 1445 | 1476 | 1505 | 1532 | 1602 |
| Working Expenses (including Interest) | 1883 | 1925 | 1978 | 1989 | 2001 | 2045 | 2131 |
| Profit/(Loss) before Grants | (504) | (511) | (533) | (513) | (496) | (513) | (529) |
| Resulting in:- | | | | | | | |
| PSO Grant | 502 | 515 | 565 | 560 | 552 | 576 | 633 |
| Non-passenger Profit/(Loss) | (2) | 4 | 32 | 47 | 56 | 63 | 104 |

Table 11.12. 1979 Rail Review - Profit and Loss Forecast 1979 to 1984 and 1989 (in 1979 Price Levels)

(Source : BRB internal records)

It can be seen that, in this Review, the P.S.O. Grant was expected to increase from £502m in 1979 to £576m in 1984 and to £633m in 1989, all figures in 1979 prices. The P.S.O. cash limit forecasts, again in constant prices, were substantially lower than the expected P.S.O. grant requirements. Details of the differences are given in Table 11.13. It will be noted that the shortfalls against the cash limits were in marked contrast to the situation forecast in the 1978 Review, where P.S.O. cash limit shortfalls were not expected to occur until 1986.

| | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1989 |
| | £m | £m | £m | £m | £m | £m | £m |
| P.S.O. Cash Limit | 497 | 487 | 483 | 483 | 483 | 483 | 483 |
| P.S.O. Grant Requirement | 502 | 515 | 565 | 560 | 552 | 576 | 633 |
| Shortfall | 5 | 28 | 82 | 77 | 69 | 93 | 150 |

Table 11.13. 1979 Rail Plan - P.S.O. Cash Limit and Grant Forecasts 1979 to 1984 and 1979 (in 1979 Price Levels)

(Source : BRB internal records)

On the Non-passenger side, it was forecast that the loss of £2m budgeted for 1979 would be converted into a profit of £63m by 1984 and £104m by 1989. Again, these forecasts were substantially worse than those contained within the 1978 Rail Review. In this case, the main contributory cause was the deterioration in the start position i.e. the forecast for 1979 which had changed from a profit of £40m in 1978 price levels to

a loss of £2m in 1979 price levels. This was largely associated with a 9 million reduction in Freight tonnes.

The key resource changes contained within the 1979 Rail Review are summarised in Appendix 2(c). Compared with the 1978 Review, a slower introduction of H.S.T. and A.P.T. sets was forecast and, consequently, a slower withdrawal of locomotives and locomotive hauled coaching vehicles. On the other hand, because of lower Freight tonnes expectations, larger reductions in Freight wagons were forecast. However, the most significant change related to manpower, where both the requirements and the estimated actuals were predicted to be considerably higher than forecast in the 1978 Review. This change was most marked in the base year (1979) where a 9,000 increase in both was recorded between the two Reviews.

The macro-economic forecasts are given in Appendix 2(d). These were close to those used in the 1978 Rail Review.

The investment forecasts are provided in Appendix 2(b). Whilst these were lower in real terms compared with those forecast in the 1978 Review, once again considerable growth was forecast. The 1979 budget level of £307m was expected to increase to £396m by 1984 and £393m in 1989, all figures in 1979 price levels. Again, the bulk of the increase was planned to be spent on capital investment, in particular Passenger rolling stock construction and related maintenance facilities.

Total working expenses were forecast to increase much more

than anticipated in the 1978 Rail Review. This was partly due to the inclusion of real increases in traction fuel costs (for the first time) and also due to lower resource reductions (particularly manpower) which reduced the savings contained in 'Other Items'. These aspects, in turn, increased the interest forecast. A summary of the forecast changes in respect of selected years is given in Table 11.14.

| | Year | | |
|---|---|---|---|
| | 1983 | 1984 | 1989 |
| | £m | £m | £m |
| Increase/(Decrease) over 1979 Budget in | | | |
| Revenue Investment | 8 | 15 | (16) |
| Real Staff and Traction Fuel Costs | 120 | 154 | 319 |
| Depreciation / Replacement Allowance | 12 | 17 | 43 |
| Interest | 6 | 7 | - |
| Other items (mainly resource reductions) | (28) | (31) | (98) |
| Total Working Expenses | 118 | 162 | 248 |

Table 11.14. 1979 Rail Review - Summary of Forecast Increases in Working Expenses 1983, 1984 and 1989 (in 1979 Price Levels)

(Source : BRB internal records)

Looking at each of the three businesses, within the Railways business, in turn, the 1979 Rail Review forecasts can now be considered further.

As noted earlier, the P.S.O. grant requirement was forecast to

increase considerably over the years of the Review. The forecast real price increases in Passenger receipts were a little lower than those contained within the 1978 Review. Similarly lower improvements were expected in respect of the volume of receipts. Both of these features can be observed in Appendix 2(a) - page 4. In terms of Passenger Miles, the forecasts were as shown in Appendix 2(c) - page 1 and analysed over the four Passenger sectors in Appendix 2(c) - page 5. The forecast pattern of growth was a little lower than that contained within the 1978 Review, allowing for a higher base year forecast. This was due to the marginal changes in strategy noted earlier.

The Non-passenger business profit forecasts were analysed as shown in Table 11.15. It can be seen that the deterioration, compared with the 1978 Review (Table 11.10.), was related mainly to the Freight business. The Parcels profit forecasts were fairly similar for the middle years of the Review, with smaller profits in 1979 and 1980 but larger profits in 1989 compared with 1988 in the earlier Review.

It was noted earlier that the deterioration in the Freight Profit forecasts was due mainly to the poorer start position in respect of receipts and tonnes. This was reflected in the Freight tonnes forecast as shown in Appendix 2(c) - pages 1 and 6, which were expected to remain generally lower than the 1978 Rail Review expectations. Similarly to the 1978 Review, however, the forecast increases in Freight tonnes were fairly consistent with the volume increases in receipts given in

Appendix 2(a) - page 4.

| | Forecast Profit/(Loss) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1989 |
| | £m | £m | £m | £m | £m | £m | £m |
| Parcels business | 1 | 1 | 6 | 9 | 10 | 10 | 14 |
| Freight business | (3) | 3 | 26 | 38 | 46 | 53 | 90 |
| | (2) | 4 | 32 | 47 | 56 | 63 | 104 |
| Ancillary Income Included in Freight business Forecast | 19 | 19 | 20 | 22 | 19 | 25 | 26 |

Table 11.15. 1979 Rail Review - Analysis of Non-passenger Profits 1979 to 1984 and 1988 (in 1979 Price Levels)

(Source : BRB internal records)

The Parcels business profits were not described as 'disappointing' as in the 1978 Rail Review but as a situation which 'will provide the breathing space required to take decisions on the results of the Study and implement them.' The 'Study' referred to was, of course, the Parcels Sector Strategic Study.

As noted at the beginning of this sub-section, a risk analysis was undertaken in respect of the 1979 Rail Review and the mean estimates became the Review forecasts. The results of this risk analysis are recorded in Table 11.16.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1989 |
| | £m | £m | £m | £m | £m | £m |
| Passenger - PSO Grant | | | | | | |
| Rail Review / Mean | 515 | 565 | 560 | 552 | 576 | 633 |
| Risk Analysis - Best | 502 | 549 | 540 | 527 | 549 | 572 |
| - Worst | 528 | 581 | 580 | 577 | 603 | 694 |
| Freight - Profit/(Loss) | | | | | | |
| Rail Review / Mean | 3 | 26 | 38 | 46 | 53 | 90 |
| Risk Analysis - Best | 20 | 41 | 53 | 60 | 68 | 115 |
| - Worst | (14) | 11 | 23 | 32 | 38 | 65 |
| Parcels - Profit/(Loss) | | | | | | |
| Rail Review / Mean | 1 | 6 | 9 | 10 | 10 | 14 |
| Risk Analysis - Best | 3 | 8 | 13 | 16 | 17 | 33 |
| - Worst | (1) | 4 | 5 | 4 | 3 | (5) |

Table 11.16. 1979 Rail Review - Summary of Risk Analysis 1980 to 1984 and 1989 (in 1979 Price Levels)

(Source : BRB internal records)

Given results as portrayed under the 'worst' heading above, large shortfalls would be sustained against the anticipated PSO cash limit amounting, for example, to £120m in 1984 and £211m in 1989, in 1979 price levels. However, once again, even the 'worst' profits on the Freight side were expected to be generally better than the forecasts contained within the 1974 Plan and the 1975 Review.

## 11.5. Railways Business Plan 1980

The 1980 Corporate and Rail Plan was completed in September 1980 and was made available for public distribution. It was regarded by the BRB as a 'Plan' rather than a 'Review' because, in respect of the Railways business, it fully incorporated the strategies developed in the Passenger/Freight/Parcels Strategic

Studies, was intended to be implemented and contained forecasts which were within the anticipated cash limits. It was seen as a major milestone in corporate planning within the BRB, particularly in respect of its Rail Plan content.

11.5.1. Objectives

No fresh objectives were developed by the BRB in the 1980 Rail Plan. Instead emphasis was placed on the P.S.O. cash limit, the 'commercial' nature of the Non-passenger business and the newly emerged External Financing Cash Limit. The External Financing Cash Limit has been explained in Chapter 6 and was first set by Government in the fiscal year 1979/80. Mention was made in the Plan text of the interim financial targets which were also discussed in Chapter 6.

The Board's intention was to prepare a 'realistic plan' and in doing so decided to 'exceed the present investment ceilings while seeking to stay within the over-riding external financing limit and, albeit with more difficulty, within the present level of P.S.O. grant.' It will be seen later that assumptions were made about increases in the E.F.L. and P.S.O. cash limits to allow for main line electrification which became a significant feature of the Railways business strategy.

11.5.2. Strategy

The 1980 Rail Plan was based upon the following strategies.

(a) Electrification

Main line electrification 'envisaging the electrification of 52% of the total network by around the year 2000.'

(b) Passenger

System size 'almost identical' with that which existed in 1980.

Continued H.S.T./A.P.T. development but at a slower rate than that anticipated in the 1979 Review.

A 'very small number of service withdrawals' totalling 'about 60 route miles by 1985 which will have only a modest effect on the Passenger business.'

Real price increases in the Inter-city sector (related to investment) and in the London and South East Sector.

(c) Freight

Enhancement of the Freight strategy contained within the 1978 and 1979 Rail Reviews, to incorporate a complete withdrawal from the wagonload sector (i.e. excluding Speedlink) by 1990 and recognition of the lower wagonload tonnes carried in 1980 (compared with the level forecast in the 1979 Review) which would produce lower volumes in each of the Plan years.

(d) Parcels

Withdrawal from the Collected and Delivered sector on 1 July 1981.

A marginal expansion of the share of premium market but continuation of the present newspapers and Post Office traffic levels.

11.5.3. Forecasts

The 1980 Rail Plan content of the Corporate Plan did not contain enough information for the purpose of this sub-section and substantial additional information was obtained from file records.

Many of the Plan forecasts were prepared only for the years 1980 (base), 1981 and 1985 and intermediate forecasts were calculated by the BRB by interpolation. A 'snapshot' forecast for 1990 was prepared during the early stages of the planning process but was not continued into the later stages of the plan production process. Thus, forecasts for 1990 are not contained within this section.

A summary of the forecasts given in Appendix 2(a) is provided in Table 11.17. It can be seen that a fairly flat P.S.O. grant was forecast, despite medium term increases in revenue investment associated with main line electrification. Also, the Non-passenger loss of £43m, anticipated for 1980, was predicted to be converted into profits of £36m by 1982, £101m by 1984 and £136m by 1985, all figures in 1980 price levels. Despite the poorer start point, the Non-passenger profits forecast for the later years were better than those in the 1979 Rail Review because of the impact of the new Parcels strategy.

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| | £m | £m | £m | £m | £m | £m |
| Receipts (including Ancillaries) | | | | | | |
| Passenger | 971 | 1013 | 1067 | 1101 | 1126 | 1154 |
| Freight | 493 | 489 | 510 | 524 | 538 | 553 |
| Parcels | 144 | 119 | 113 | 113 | 113 | 111 |
| Total | 1608 | 1621 | 1690 | 1738 | 1777 | 1818 |
| Working Expenses (including Interest) | 2312 | 2244 | 2282 | 2267 | 2306 | 2312 |
| Profit/(Loss) before Grants | (704) | (623) | (592) | (529) | (529) | (494) |
| Resulting in:- | | | | | | |
| PSO Grant | 661 | 608 | 628 | 615 | 630 | 630 |
| Non-passenger Profit/(Loss) | (43) | (15) | 36 | 86 | 101 | 136 |

Table 11.17. 1980 Rail Plan - Profit and Loss Forecasts 1980 to 1985 (in 1980 Price Levels)

(Source : BRB Corporate Plan 1981-85 and internal records)

A comparison against the cash limits is not given in Appendix 2(a) but is provided in Table 11.18. This table records P.S.O. surpluses over the cash limit which were in sharp contrast to the shortfalls recorded in Table 11.13, relating to the 1979 Review. Additionally, reference is made to the E.F.L. (Rail share assessed by the BRB) for the first time. Again surpluses are recorded.

Much of the improvement in the forecasts was in respect of working expenses reductions relating to reduced resources. Details of the resource changes are contained in Appendix 2(c).

| | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| | £m | £m | £m | £m | £m | £m |
| PSO Cash Limit * | 635 | 627 | 638 | 650 | 659 | 664 |
| PSO Requirement | 661 | 608 | 628 | 615 | 630 | 630 |
| Surplus/(Deficit) | (26) | 19 | 10 | 35 | 29 | 34 |

* including effect of main line electrification

| EFL Cash Limit ø | | | | | |
|---|---|---|---|---|---|
| Before main line electrification | 700 | 700 | 700 | 700 | 700 |
| Main line electrification | 16 | 25 | 44 | 89 | 92 |
| Total | 716 | 725 | 744 | 789 | 792 |
| EFL Requirement | 693 | 687 | 663 | 671 | 625 |
| Surplus/(Deficit) | 23 | 38 | 81 | 128 | 167 |

ø Rail Share of BRB total Estimated by Board

Table 11.18. 1980 Rail Plan - Comparison of P.S.O./E.F.L. Cash Limits and Requirements 1980 to 1985 (in 1980 Price Levels)

(Source: BRB Corporate Plan 1981-85)

By far the most significant feature was manpower, where changes on the 1980 base year estimate were predicted as follows:-

| | Manpower (000's) | |
|---|---|---|
| | Requirements | Estimated Actual |
| By 1983 | - 24.5 | - 18.4 |
| By 1985 | - 38.3 | - 31.0 |

As can be seen in Appendix 2(c), these reductions, which incorporated the strategic changes mentioned earlier, were far more ambitious than those contained within the 1979 Review.

The macro-economic forecasts are given in Appendix 2(d). These were not as favourable as those used in the 1979 Review but, nevertheless, showed an economic growth situation.

The investment forecasts are shown in Appendix 2(b). These were considerably lower than in the 1979 Rail Review in respect of revenue investment but higher in respect of capital, the latter relating largely to the main line electrification strategy. In total, however, they were slightly lower than in the earlier Review despite the electrification strategy, the change in price level being more than offset by a switch of part of the revenue investment to maintenance (see note on Appendix 2(b)).

Total working expenses were expected to move very little over the five year period, with resource savings offsetting the increases in revenue investment and real staff/traction fuel costs. Details for the years 1984 and 1985 are given in Table 11.19.

Looking at each of the businesses in turn, the forecasts can now be considered in more detail.

The Passenger PSO grant forecast was relatively favourable (compared with the 1979 Rail Review) because of larger real price and volume increases and lower real increases in expenditure, see Appendix 2(a) - page 5. In terms of business volume, the forecast Passenger miles were as recorded in Appendix 2(c) - page 1 and analysed over the four Passenger

| | Year | |
|---|---|---|
| | 1984 | 1985 |
| | £m | £m |
| Increase/(Decrease) on 1980 Forecast in | | |
| Revenue Investment (allowing for switch to maintenance) | 37 | 51 |
| Real Staff and Traction Fuel Costs | 76 | 123 |
| Depreciation/Replacement Allowance | 12 | 19 |
| Interest | 15 | 14 |
| Other Items (mainly resource reductions) | (146) | (207) |
| | (6) | - |

Table 11.19. 1980 Rail Plan - Summary of Forecast Increases in Working Expenses 1984 and 1985 (in 1980 price levels)

(Source : BRB internal records)

sectors in Appendix 2(c) - page 5. The growth in Passenger Miles was not as pronounced as in the 1979 Review, which seems, therefore, to contradict the volume increases in receipts between two forecasts.

Discussions with the planners concerned have indicated that the 1979 Rail Plan passenger miles forecasts were not accurate and were out of line with the growth in receipts.

The Non-passenger business profit forecasts were analysed by the BRB as shown in Table 11.19. Here it can be seen that, despite the substantial deterioration in the base year position, the Freight business was expected to make profits in the later years of the Plan which were similar to those forecast in the 1979 Review (see Table 11.15). This improvement was expected to accrue from resource reductions and a lower level of real increases in expenditure than forecast in the 1979 Review.

| | Forecast Profit/(Loss) | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| | £m | £m | £m | £m | £m | £m |
| Parcels business | 4 | (9) | 23 | 48 | 51 | 57 |
| Freight business | (47) | (6) | 13 | 38 | 50 | 79 |
| | (43) | (15) | 36 | 86 | 101 | 136 |
| Ancillary Income | | | | | | |
| Included in Freight business forecast | 23 | 23 | 27 | 27 | 29 | 32 |

Table 11.19. 1980 Rail Plan - Analysis of Non-passenger Profits 1980 to 1985 (in 1980 Price Levels)

(Source : BRB internal records)

The forecast tonnes are shown in Appendix 2(c). It will be observed that they were considerably lower than those contained within the 1979 Review, because of the reductions experienced in 1980 and the changed wagonload strategy. However the trainload growth trend line was similar.

The Parcels business forecasts were much better than hitherto,

reflecting the financial improvement expected to result from the withdrawal from the C & D sector. The profits predicted in the later years contained a considerable amount of 'earned' interest (£8m in 1984 and £13m in 1985).

A formal risk analysis, again using the method outlined in Chapter 10, was conducted in respect of the 1980 Review. A summary of the results of that exercise is given in Table 11.20.

| | Year | | | | |
|---|---|---|---|---|---|
| | 1981 | 1982 | 1983 | 1984 | 1985 |
| | £m | £m | £m | £m | £m |
| Passenger - PSO Grant | | | | | |
| Rail Plan | 608 | 628 | 615 | 630 | 630 |
| Risk Analysis - Mean | 616 | 643 | 633 | 654 | 663 |
| - Best | 589 | 591 | 560 | 562 | 550 |
| - Worst | 642 | 695 | 706 | 746 | 776 |
| Freight - Profit/(Loss) | | | | | |
| Rail Plan | (6) | 13 | 38 | 50 | 79 |
| Risk Analysis - Mean | (10) | 6 | 35 | 43 | 67 |
| - Best | 35 | 57 | 88 | 108 | 123 |
| - Worst | (55) | (45) | (19) | (22) | (30) |
| Parcels - Profit/(Loss) | | | | | |
| Rail Plan | (9) | 23 | 48 | 51 | 57 |
| Risk Analysis - Mean | (9) | 24 | 46 | 49 | 53 |
| - Best | (7) | 35 | 54 | 59 | 63 |
| - Worst | (12) | 12 | 37 | 40 | 42 |

Table 11.20 1980 Rail Plan - Summary of Risk Analysis 1981 to 1985 (in 1980 Price Levels)

(Source : BRB internal records)

It can be seen that the 'worst' level of the Passenger PSO grant requirement was predicted to be beyond the expected cash limit levels, as follows:-

| | Shortfall in 1980 Price Levels (£m) |
|---|---|
| 1981 | 15 |
| 1982 | 57 |
| 1983 | 56 |
| 1984 | 87 |
| 1985 | 112 |

Additionally, it was forecast that the Freight business could continue making losses under the 'worst' conditions, although in the years 1983 to 1985 these losses would not be as large as the 'worst' profits of the Parcels business. Further reference will be made to these risk analysis forecasts in Chapter 16.

# CHAPTER 12

# CORPORATE PLANNING IN THE NATIONAL FREIGHT COMPANY

In describing the practice of corporate planning within the National Freight Company, it is again intended to draw comparisons against the theoretical material provided in Chapters 3 and 4. This will be undertaken under the headings established in Chapter 11, as in respect of the BRB. The information given in this chapter was obtained from the NFC mainly in response to the questions listed in the structured interview programme discussed in Chapter 2.

## 12.1. The Process of Corporate Planning

The National Freight Company or, as it then was, the National Freight Corporation, commenced its corporate planning in 1976 and, although no formal report was produced on planning methodology the organisation was advised at the outset by David Hussey of Harbridge House. A corporate planning department was created in 1976 consisting of 4 persons headed by what is now described as the Director of Corporate Planning. That post is part of the senior management structure of the NFC and responds directly to the post of Deputy Chairman and Chief Executive (see Figure 7.2.).

Since 1976, plans have been produced annually for each of the six groups as well as a corporate plan. Additionally each company within each group prepares a plan. These are consolidated into the group plans. As in the BRB, each company plan is produced as a separate 'corporate' plan and the NFC corporate plan is the consolidation of those plans via the consolidation

of the group plans. To understand the situation more fully, it is intended to explain the process by reference to the theoretical model given in Chapter 3, as summarised in Figure 3.5.

The first element of the model in Figure 3.5. refers to values. The NFC adopted this element in 1978 and converted it into what they described as a 'statement of mission'. This is summarised by the author as follows:-

The National Freight Corporation intends to:-

- be more diversified
- trade internationally
- be a free standing business
- increase its earnings and net worth per share

At first sight, these values might seem to be pious and open-ended statements. However, it will be made clear that, in part at least, they have been converted into more definitive and positive objectives. Additionally, they portray quite vividly the culture of the organisation which has developed since 1969, as described in Chapter 5. In discussing the statement of mission with NFC, the author was struck with the intensity of the seemingly corporate desire, which has been prevalent for some years, to get away from what was generally described as the inefficient, subsidised, nationalised industry past and behave like a thrusting company in the private sector. This was also described as being an essential stance, given the 'cut-throat' nature of the public haulage competitive environment.

Moving to policies, these have not been explicitly determined.

The statement of mission is regarded as covering this element adequately and NFC do not consider that it is necessary to add to that statement in order to produce effectively their corporate plans. However, further discussion with NFC elucidated that they see it as absolutely essential to adhere to the many and varied road traffic rules and regulations laid down by Government (often related to European Economic Community decisions and regulations) even though many of their smaller competitors are less willing to do so. Additionally, NFC does not accept the 'no-compulsory redundancy' policy adopted by the BRB. That is seen as being inconsistent with their values and objectives and would have jeopardised the strategic change already achieved had it been adopted.

In respect of objectives, there were initially set by Government in the Transport Act 1968. They remain in force and, as noted in Chapter 7, require the NFC to break-even in its profit and loss account one year with another after making a proper provision for the depreciation and renewal of assets. Throughout the corporate planning process, the NFC has accepted this financial objective but, in 1980, they developed further objectives in anticipation of the company structure and eventual privatisation. These objectives were that:-

a) there should be a gearing ratio of 70%

b) dividends should be covered twice over

c) the profits before interest and tax should be three times the interest charge.

However, no particular time limit was related to these objectives.

Additionally, there are no non-financial objectives, nor any plans to produce any. Instead, it was felt by the NFC planners that the statement of mission adequately covers this feature. However, on further discussion, it was accepted by NFC that there would be merit in expanding and clarifying the statement of mission by specifying, through the process of determining non-financial objectives, objectives in respect of market shares in specialised fields and the physical changes expected in respect of resource utilisation.

An important feature of the financial objectives noted above (including the break-even objective set by Government) is the fact that NFC have not distributed them over the six groups, (and thus not to the companies within the groups) nor have they expected the groups themselves (or the companies) to determine their own objectives and agree them at headquarters level. Instead, emphasis is placed on an informal and implicit acceptance, at all levels, of the statement of mission which, although only developed in the last three years, has been the 'understood situation' for much longer. However, again after discussion, NFC accepted that their approach could be improved by determining and agreeing financial and non-financial objectives, with an associated timescale of achievement, between headquarters and the six groups and requiring the groups to do the same in respect of the individual companies.

The term goals has not been adopted by the NFC as a separate element of the corporate planning process. Thus they have not been identified at any level. This is not surprising given

the lack of attention paid to the development of a timescale for achievement of the new financial objectives set in 1980 and the lack of emphasis on objectives in earlier years. Again, however, after discussion, NFC planners accept that it would be of benefit, at all levels, to determine and agree goals which relate to the objectives, once action has been taken to improve the objectives.

The development of strategy has largely taken place in an unstructured way without the benefit of strategic reviews, designed to incorporate an internal and external appraisal. Instead, reliance has been placed upon 'ideas' for strategic change being generated by the management teams of the groups and companies and at headquarters. The diversification strategy, which was discussed in Chapter 7, and is formalised in the statement of mission, was basically attributed to the ideas produced by the Deputy Chairman and Chief Executive and by the managing directors of each of the groups. Discussions on these 'ideas' have taken place not so much as part of the corporate planning process but in headquarters/group meetings of a more general or specific nature and in informal discussions.

A general strategic review was attempted in 1978 when a matrix was prepared by the Director of Corporate Planning to compare market opportunities with competitive potential in respect of each group. This did not incorporate any form of gap analysis and it did not produce any new strategic direction. However, it was considered in NFC to have confirmed generally the strategy of each group and clarify their intentions. However,

the Director of Corporate Planning would like, in the next two years, to put more effort into the strategy development. He feels that the NFC should spend a great deal more time deciding where it wants to go as an organisation, rather than allowing each of the groups to develop its strategy with inadequate central coordination. He considered also that the present arrangements allowed the NFC to be surprised by the developments introduced by its competitors.

Moving further down the model in Figure 3.5., the corporate, group and company plans produced annually by the NFC have been very similar to the strategic plans identified in the model. At group and company level, they have contained a broad outline of the strategy and forecasts for the current year and for each of the next three years. These forecasts have covered financial and physical facts in respect of all of the major aspects of each of the groups' activities i.e. profit and loss, cash flow, market volume, operating and maintenance volume/resources, manpower resources and investment. The annually prepared corporate plan has been a consolidation of these group plans and, at this stage only, has a comparison been made with the overall financial objectives of the NFC. Contingency plans have not generally been prepared, the major risks not having been isolated during the strategy stage in most of the company/group plans.

The production of the annually prepared plans at the company/group/corporate level takes about 7 months, although the approval procedure extends this period to 11 months. Details of

the arrangements are as follows:-

January - The Director of Corporate Planning takes a critical look at the corporate and group plans produced the previous year and submits a paper to the NFC headquarters Executive Committee (consisting of the directors of the NFC and of the Groups). This paper comments on the up-to-date financial situation and points to areas where improvement is particularly urgent.

- The Executive Committee considers the paper and discusses possible significant strategic changes and items requiring further examination.

February - The paper and subsequent amendments are agreed at Board level.

- Separate meetings are held with the management teams of each group to agree any significant strategic changes. These meetings are attended by all of the headquarters functional directors.

March - Macro-economic forecasts issued to groups by the Director of Corporate Planning. These are further distributed to company level.

- Strategic advice provided by groups to individual companies.

March to June - Individual companies prepare their plans which are consolidated into group plans and submitted to NFC headquarters in June.

July - Each Group plan is discussed in detail in separate meetings attended by Chief Executive and his directors and the management teams of each group.

Occasionally, modifications to the forecasts are made at this stage.

August - Group plans are consolidated into the overall corporate plan. At this stage, some overlays are undertaken particularly where the receipts forecast by the groups are considered by the headquarters directors to be optimistic.

September - The corporate and group plans are submitted to the Executive Committee for final approval.

November - The corporate and group plans are submitted to the NFC Board for final approval.

Each of the corporate plans has been submitted to the Department of Transport, accompanied on some occasions by a presentation. This has led to little debate, although the Director of Planning has indicated that the plans submitted in 1976 and 1977 were looked at more closely and would have had a bearing on the capital reconstruction in 1978.

It has been made clear that the overall plan production process involves the companies within each group. Thus, each of the individual companies has a three year plan which is a constituent part of the plan for the group within which it is located. The Director of Corporate Planning considers that, whilst this integration is necessary and beneficial, the quality of many of the individual company plans has been poor. Consequently, this has impacted upon the quality of the group plans. This problem has not generally been one of strategic content but of substantially inaccurate forecasting and poor presentation.

The forecasts for the first year (i.e. the first year after the current year) have been converted by each group into a detailed operating plan in line with the model (action plan) given in Figure 3.5. These operating plans have also been produced by each of the separate companies which exist within each group. The operating plans have contained a detailed series of planned events expected to take place during the year. Dates, physical values and financial values have been ascribed to these events.

The NFC budgeting process is in line with the theoretical position outlined in Chapter 3 and the one year budgets are completely integrated with the operating plans, at all levels.

The feedback process, in respect of the plans, has been exercised only through monitoring the one year operating plans and budgets. No attempt has been made to formally monitor the general implementation of the strategy and no back-check has ever been undertaken of the implementation of the strategic plans. Informally, the Director of Corporate Planning considers that he has been able to keep abreast of major failings which can be dealt with at the early stages of the next annual cycle. He does not consider, therefore, that a formal back-check is necessary.

Whilst there have been no formal contingency plan arrangements required as part of the corporate planning process, some of the group/company plans have occasionally identified possible courses of action if certain declared events were to obtain.

After discussion, the Director of Planning agreed that there would be considerable merit in preparing contingency plans but he considered it would be best, at this stage, to concentrate on strategy development and measures to improve the integrity of some of the plans of the individual companies.

To conclude this section, it must be stated that, in the opinion of the Director of Corporate Planning and, notwithstanding the theoretical deficiencies discussed earlier and a measure of inaccurate forecasting, the corporate planning process of the NFC is well respected throughout the organisation. It is generally considered to be a vital part of the overall management of the company and totally in keeping with the management style that the Chief Executive wants to maintain and enhance. He has added that there is a strong feeling of independence within the company and a desire to prevent the financial difficulties experienced in its early years from ever returning again. This has prompted a need to be progressive and develop strategies which will ensure long term stability and robustness. Indeed, he considered that much of the financial improvement experienced up to 1979 has been due to the corporate planning process and it has enabled the Company to 'ride out' the recession, so far, reasonably well - and much better than would otherwise have been the case.

## 12.2. Corporate Planning Procedures

In respect of procedural issues, these will again be dealt with in order of the theoretical description provided in Chapter 4.

12.2.1. Forecasting

All of the forecasting undertaken by the NFC, at each organisational level, has been undertaken on what is described as a 'judgemental' basis. No attempt has been made at using the array of techniques which are listed in Chapter 4. In effect, this means that the visionary forecast technique (see Chambers et al in Chapter 4) has been used as was the case, largely, in respect of the BRB. The Director of Planning is happy with this technique in principle since he regards the forecasts made by company/group experts, provided in the knowledge of macro-economic indicators (U.K.wholesale price index, gross domestic product and manufacturing output), is likely to be the best which can be made available. However, as indicated earlier, he considers that, in some of the companies, insufficient time, effort and coordination has been put into the production of the forecasts by those who have the responsibility and ought to have the expertise.

The structure of the forecast procedure in respect of the outline strategic plan is similar to that described in the model provided in Figure 10.3. in connection with the BRB procedures. The main difference is that there is no separate investment specification. Instead, the investment intentions have emerged as a result of the marketing specifications. The final outcome of this procedure has been an investment programme which has not been constrained by pre-set ceilings. This situation has been able to be sustained since the investment requirements of each corporate plan to date have not exceeded the expected Government investment ceilings.

Another significant difference compared with the BRB procedure is that the forecasts have been produced in estimated actual prices. This procedure has relied heavily upon central advice supplied by the Director of Planning (after consultation with his fellow board members) about the likely levels of pay increases and the general levels of inflation. Receipts price increases and non-staff costs increases above and below the rates of inflation have been left to the judgement of the individual groups and companies.

In regard to investment, all major projects are expected to have been included in the group/company plans, prior to being authorised. DCF procedures are applied to all investment projects at Group level. Each of the Groups has an authority level of £100,000 per project. Any projects above that level have to be referred to NFC headquarters to be approved by a Projects Appraisal Committee. This committee is chaired by the Director of Administration and attended by the Directors of Finance, Personnel and Corporate Planning. This committee vets the projects, checking to ensure that they are consistent with the latest Group plan.

A DCF rate of 20% is applied in respect of all projects. This rate is in real terms and, consequently, the cash flow forecasts are in constant prices. However, no arrangements are made to ensure that real price changes are allowed for in the forecasts.

There are no formal arrangements to monitor the outlay on investment projects but the Groups are expected to ensure that

the forecast outlays and benefits are incorporated in their three year strategic plans, annual operating plans and budgets.

The NFC are unhappy with their investment authorisation and appraisal arrangements and feel that the project submissions frequently include inflated benefits in order to achieve the 20% discount rate. Also they are not happy that the benefits are correctly included in the three year plans at group level. Consequently, a back-check procedure has recently been designed in order to specifically evaluate the overall effect of individual projects, starting with those having an outlay of over £100,000. This procedure has not been introduced yet but will be in 1982. In the opinion of the Director of Corporate Planning, it is likely to lead to the application of differential discount rates for various classes of project. Also, it seems likely that forecast cash flows will be required in estimated actual prices to facilitate a closer reconciliation with the three year strategic plans, operating plans and budgets of each Group. This would, of course, require (for discounting purposes) the use of a money rate of return rather than the present method of a real rate of return.

The NFC do not intend to assess the organisation's cost of capital to determine the discount rate because of the complexity of that task. Instead, artificially high rates of return will be expected to apply to selected projects as a means of allowing a headroom for risk.

12.2.2. Model Building

The NFC has not used computer models for any part of the corporate planning process and there are no plans to do so in the immediate future.

12.2.3. Risk and Sensitivity Analysis

Sensitivity analyses have not been formally prepared but some of the companies/groups have occasionally provided details of the major potential risk areas within each of their strategic plans. A risk analysis, as described in Chapter 4, has never been attempted and there are no plans to do so. After discussion, the Director of Planning accepted the merits of risk analysis but stated that it would be more fruitful, at this stage, to concentrate upon developing, more formally, the sensitivity analysis procedures and then related contingency plans.

12.2.4. Budgetary Control

The budgetary control procedures used in each level of the organisation are similar to the theoretical situation outlined in Chapter 4. Unlike the BRB, however, these procedures are fully integrated with an annual operating plan procedure. The annual budgets are built up from company level and review procedures take place at group and NFC headquarters level. The group budgets are finalised in the Autumn and submitted together with the operating plans to NFC headquarters in November. They are discussed at the December Executive Committee meeting where care is taken to ensure that each group budget is compatible with the strategic plan (i.e. the group plan) and the operating plan. The budgets contain profit and

loss account, investment expenditure and cash flow statements, supported by details of key physical facts.

Monitoring of the budget takes place at all levels on a four weekly basis and of the operating plan quarterly. This monitoring procedure is based upon the upward submission of variance statements with related explanations. This leads to discussion at Executive Committee meetings and equivalent meetings at group level and, where appropriate, corrective action, as far as possible.

# CHAPTER 13

# CORPORATE PLANNING IN THE NATIONAL BUS COMPANY

As in respect of the BRB and NFC, it is intended, in this chapter, to describe the practice of corporate planning in the National Bus Company, using the headings established in Chapters 10 and 12. The information provided in this chapter was obtained from the NBC mainly in response to the questions listed in the structured interview programme discussed in Chapter 2.

## 13.1. The Process of Corporate Planning

The National Bus Company commenced its corporate planning in 1974 and has produced a corporate plan annually since that year. At the outset, a decision was made by the NBC board to appoint a firm of management consultants to advise on the nature of the process and how it could be best applied in the NBC. In the event, P.A. International were appointed in 1973 to produce a report on the process and procedures. Their report has not been made available to the author but it has been explained by the Director of Research and Strategic Planning that their recommendation for a heavily centralised process with a large corporate planning department at NBC headquarter's level was not acceptable to NBC. This was because it was felt by the NBC board that it would be contrary to the culture of the organisation which placed a heavy emphasis on the individual companies serving the local communities and obtaining, where possible, financial support from Local Authorities.

Instead, it was decided to proceed on a totally decentralised basis and produce 'corporate' plans at each company level. These plans have been consolidated at headquarters level but not at the intermediate regional levels. In the consolidated NBC corporate plan 1980, it was explained that corporate planning in NBC is designed to meet three distinct requirements. These are stated below:-

' i) The imposition on each operating company of an examination, on a regular basis, of the future bus and coach service requirements of the areas they serve, identifying those parts of the business which can be expanded, or continue to be provided, given the financial target expected by the Government and the anticipated levels of local authority financial support, and making the necessary plans for capital expenditure, manpower deployment and training, and service provision to meet forecast requirements.

ii) It enables NBC central management to identify particular areas of difficulty and to decide where the resources of the Group can best be used to meet the NBC Group objective.

iii) It provides a basis for the forecasts of financial outturn, capital expenditure and borrowing requirements which are requested annually by central government.'

To coordinate the corporate planning activities the then existing research and economics department was expanded by the addition of a planning manager and four staff. The planning manager describes himself as a 'bus-man' and he is currently supported by an economist, a general planner, a land use planner and a

statistician. Apart from the corporate planning activities, this department attends to planning studies on behalf of the companies including analysis of county council structure plans. However, the main task is coordination of the corporate planning and this department issues plan instructions, provides economic forecasts and consolidates the plans of the individual companies into the corporate plan. The Director of Research and Strategic Planning who heads this expanded department is a member of the main headquarters management team i.e. a director of National Bus Management Limited (see Chapter 8 for organisation structure).

Moving now to the comparison with the model in Figure 3.5., the first element to be considered is values. This term has not been formally adopted by NBC as a fundamental part of the corporate planning process but recent plans have adopted the term implicitly in the form of an 'overall planning objective' which is given below:-

'This (1980) corporate plan seeks to satisfy the same overall planning objective as its predecessors,' which is 'to meet the NBC's financial objective, as defined by statute and in agreement with the Secretary of State for Transport by promoting maximum patronage of the Company's services by revenue earning passengers (defined as passengers contributing to revenue, either directly through the fares they themselves pay, or indirectly through grants and payments to secure provision for their conveyance) and minimising the resources used directly or indirectly to provide for their conveyance when and where required, whilst working where applicable within

the framework of local authority policies and plans and the Traffic Commissioners' authority.'

Policies have not been explicitly developed and it is considered by the Director of Research and Strategic Planning that it has not been necessary to stipulate policies in the manner set out in Figure 3.5. Instead, the 'overall planning objective' was considered to be sufficient for this purpose, because there has been a general understanding at all levels of the significant items which might be included under this heading. These have included strict adherence to road traffic rules and regulations laid down by Government and the licences granted by the Traffic Commissioners. Additionally, in regard to manpower reductions, the policy has been to minimise their impact by finding alternative employment, management of wastage and recruitment, early retirements and voluntary redundancy. However, in the last resort, the policy has been to use compulsory redundancy as the means of achieving planned savings, subject to full consultation with the Trade Unions and local representatives of the staff concerned. Perhaps the most important implicit policy, however, has been that concerned with full cooperation with the local authorities, particularly the county councils. Given the level of deficit grants that have been paid in recent years, and other financial arrangements (see Chapter 8), these relationships have become of vital importance to the survival of NBC.

In respect of objectives, these have only been created by Government and not NBC itself. As for NFC, these were set

for NBC under the Transport Act 1968 and required the NBC to break-even in its profit and loss account one year with another after making a proper provision for the depreciation and renewal of assets. NBC have accepted this financial objective and have been particularly conscious of the need for including a provision for the replacement of assets in their internal management accounts. However, this provision has not been incorporated in the published accounts since it would have been contrary to normally accepted accountancy practice. Instead, the additional depreciation which would have been charged on a replacement basis was shown as a note to the accounts for the years 1969 to 1978. In the subsequent accounts, the additional depreciation has been recorded in the current cost accounts statement, in common with all nationalised industries and most large organisations.

Additionally, since the fiscal year 1979/80, NBC have adopted the Government's external financing limit (EFL) as an additional financial objective. However, this has created difficulties since this objective is only clearly available for one year ahead and is not considered by NBC to be compatible with a longer term planning process. NBC do not estimate the EFL levels for later years, as is done by the BRB. Instead, the attitude has been taken that the external financing requirements produced as a result of the corporate planning process represent the levels which have to be negotiated with Government. Thus, in this way, one of the key financial objectives has been a product of the completed corporate plan and not one of its earlier vital stages.

The recently announced additional financial objective (to achieve a current cost operating surplus before interest of £18.5m, in 1980 prices, by 1985) has not been incorporated into any of the completed corporate plans but is being recognised in the plan currently in production which is due to be completed in December 1981/January 1982. It is anticipated by NBC that the plan forecasts will not achieve this objective.

There have been no non-financial objectives set by NFC board, by the individual companies or by Government.

In terms of the individual companies' objectives, these have been set only in financial terms at the outset of each planning cycle. They have amounted to target contributions to headquarter's charges (including interest) after making a provision for the renewal of assets. These targets have generally been related to intended achievement of the overall 'break-even' financial objective by the end of the plan period but have not always been matched by the plan forecasts produced by each company. This has been because they have been seen as targets which should be 'aimed at' and not rigorous objectives which must be achieved. The new targets (following the additional Government objective noted above) have recently been issued by NBC for adoption in the current plan, reflecting an analysis of the required 'operating surplus' between the regions, with the Regional Directors distributing these to company level according to their views on the potential for achievement in each company.

As part of this process of setting company objectives, goals have been set by NBC headquarters for a level of financial attainment required in respect of each of the years of the plan for each company. Again, these goals have not always been matched by the forecasts which have been submitted.

All strategic development has generally been left to the management of the individual companies in discussion with their Regional Directors. Apart from a 'Market Analysis Project' conducted in 1978, there have been no centrally conducted strategic reviews and NBC do not intend to create a situation where strategic direction is determined at headquarters level. The thinking behind this is that each of the companies is working within its own environment and should produce a strategy which best fits its circumstances. In this strategic development, the companies have been advised to undertake internal and external appraisals in an attempt at producing the most appropriate means of strategic change. They have been expected to work closely with the Local Authorities and ensure that their plans are compatible with the Structure Plans and Transport Policies and Programmes of each metropolitan/shire county in which they operate.

To assist with the company external appraisals, the Planning Manager has issued, annually, macro-economic forecasts covering the U.K. gross domestic product and the retail price index. However, all other assumptions have been created by the management of the companies as they have deemed necessary.

The development of strategy, at company level, has not been on a structured basis involving gap analysis, strategy creation, strategy evaluation and strategy selection but on the basis of generating 'ideas for change' i.e. schemes and investment projects to reduce resources and vary service levels in conjunction with local authorities. These have generally been tactical rather than strategic.

The Market Analysis Project (MAP) conducted in 1978 has been the only widescale and formalised strategic event. It was conducted by a separate team (since disbanded) reporting to the Director of Research and Strategic Planning and has been described as a 'once and for all' attempt at assessing the demand for bus travel within the orbit of each company and seeking to match that demand as far as economically possible, with financial support (where considered relevant) from the local authorities. It has been described by the Planning Manager as an exercise which 'checked up on the then existing managerial judgement of each company'. The MAP studies were not conducted, fundamentally, with a view to establishing company strategies which would achieve the overall financial objectives, although the financial contribution of each service was a significant feature. They were, instead, intended to match more closely supply and demand. The MAP studies resulted in the securing of significantly greater financial contributions from local authorities, since they indicated that a number of services should be withdrawn on financial grounds, but which the local authorities were reluctant to see withdrawn.

Moving further down the model in Figure 3.5., the plans produced annually by the NBC and its individual companies have been very similar to the strategic plans identified in the model, except that contingency plans are not produced. At company level, they have contained details of the strategy and forecasts for the current year (i.e. the budget for that year) and for each of the next four years. They have also contained financial and physical forecasts covering all of the major aspects of each company's activities i.e. profit and loss, cash flow, market volume, operating and maintenance volume/resources, manpower resources, investment and grants. In the supporting commentary to each company plan, the general manager of each company has been required to comment on the forecast achievement, or otherwise, of the objectives and goals set by NFC headquarters. These comments are expected to be agreed before-hand with the appropriate Regional Director.

The corporate plans, which have also been produced annually have been consolidations of these company plans. The consolidations have been undertaken by the Planning Manager. At this stage, a comparison has been established between the forecast expectations and the overall financial objectives. The external financing requirement has also been established in recent years and an overall commentary written by the Director of Research and Strategic Planning.

The production and discussion of the annually prepared company/NBC plans has usually taken about seven months. Details of the arrangements are as follows:-

July - Instructions for the compilation of each Company plan are issued by the Director of Planning and Research. These instructions relate to procedural issues and do not include guidance on strategic matters.

- Macro-economic forecasts issued by Director of Planning and Research. These cover Gross Domestic Product and Retail Price Index which have been discussed informally and agreed broadly with Department of Transport and Treasury economists. A decision is also taken by the General Executive Committee (made up of all of the executive directors) on the extent of real increases in pay which are to be included in the forecast. The percentages involved are included with the economic forecasts as a general planning assumption.
- Company General Managers informally discuss strategic/tactical suggestions with their Regional Director.
- Regional meetings held (chaired by each Regional Director) to clarify instructions and to allocate the objectives and goals referred to earlier.

September - Each company plan is submitted to NBC headquarters. There are no formal meetings held to discuss these plans. Any major deficiencies are dealt with informally and plans revised as necessary.

October - Company plans are consolidated into the overall NBC corporate plan.

- Corporate Plan is submitted to the General Executive Committee where some changes are occasionally agreed.

December - Corporate Plan is submitted to board for final approval.

January - Corporate Plan submitted to the Department of Transport.

Discussions take place, between the Director of Research and Strategic Planning and the Director of Finance and Department of Transport officials on the corporate plan in an attempt to obtain general agreement of the stretegic content and acceptance of the external financing requirements. These discussions have not produced an acceptance of the corporate plan but merely an acknowledgement of its forecasts and broad approval of the strategic direction.

The forecasts for the first year of each plan (i.e. the first year after the year of production) have been converted by each company into an Operating Plan, in line with the model given in Figure 3.5. This has been done to ensure a structured and disciplined interface between the strategic plans (i.e. the company plans) and the budgets for that year. The Director of Research & Strategic Planning has described the operating plans as a series of firm intentions to be implemented by each company to meet, as far as possible, the first year goals which have been laid down. He has added that the forecasts contained within the remaining three years of the four year company plans have been generally far from firm.

The annual budgets prepared by each company have been fully compatible with the operating plans and, together, they have

represented the main feed-back process. Budget data is monitored four weekly and the implementation of the action plans have been monitored by the Regional Directors on a quarterly basis. No other arrangements have existed to monitor the implementation of the strategy. The Director of Planning and Research considers that it is appropriate to consider each company plan as a free-standing event which could be much different to its predecessor, if economic circumstances change. Thus, under these arrangements only the first year goals are monitored and no attempt has been made to monitor the progressive achievement of the company objectives. However, the objectives set for the following plan take account of informal indications of the overall progress of each Company towards achievement of the four year objectives.

As noted earlier, there are no contingency plan arrangements included in the company plans or, consequently, the corporate plan of the NBC. However, the Director of Research and Strategic Planning considers that some company plans have contained pessimistic forecasts as a means of ensuring that they are unlikely generally to produce a result which is worse that their predictions.

To conclude this section it is useful to state the views of the Director of Research and Strategic Planning on the NBC corporate planning process. He considered the process to be worthwhile in the context of the one year operating plans which ensure that the Company budgets are well conceived and constructed. However, he regarded the company strategic plans and the

corporate consolidation as a 'piece of nonsence produced for the Department of Transport'. This opinion was based upon his views of the uncertainties which attend longer term forecasts. Additionally, he considered that each company is working in a different climate (politically i.e. in connection with local authority grants, economically and geographically). In these circumstances, he did not feel that there was much room for long term objective setting by NBC headquarters or, indeed, for much central direction over the development of strategy. Further, he has added that the board of NBC resisted Department of Transport pressure for introduction of corporate planning for a few years but the then Chairman relented in 1973.

However, he was happy to state that he also considered that the NBC companies who have put the most effort into their strategic plans and, more importantly, their one year operating plans 'have weathered economic storms the best'. Consequently, he believes that the performance of NBC has benefitted from the corporate planning process.

## 13.2. Corporate Planning Procedures

In respect of procedural issues, these will again be dealt with in the order of the theoretical description provided in Chapter 4.

### 13.2.1. Forecasting

All of the forecasting undertaken by the Companies in the preparation of the four year strategic plans, operating plans and budgets has been undertaken by what is described by NBC

as a 'judgemental' basis. As in respect of the NFC, discussion of this issue established that this was in line with the visionary forecast technique described by Chambers et al (see Chapter 4). The Director of Research and Strategic Planning considered that this had generally proved satisfactory and that there is sufficient expertise at company level to undertake these forecasts effectively, given reasonable time and application. He added that reference would be made, at company level, to the macro-economic indicators, i.e. as leading indicators, but the extent to which these have been used in the forecasts has been left to the management team of each company. Additionally, at NFC headquarter's level, regression analysis has occasionally been used to provide the companies with guidance on the likely impact of levels of real fares increases.

As in the NFC, the structure of the forecasting procedures in respect of the NBC company plans is very similar to the model provided in Figure 11.3. in respect of the BRB procedures. Once again, the only significant difference is the fact that the investment specification is not regarded as an input to the forecasting procedures. As for the NFC, each Company's investment specification results from the requirements of the marketing specification. The outcome of this arrangement is that the investment intentions of each Company are not constrained by pre-set targets. However, if it is perceived by the Regional Directors that any one Company is contemplating an investment programme which will jeopardise the achievement of the likely Governments investment ceiling for NBC as a whole, then cuts in the programme are requested by the Regional Director.

At the corporate plan consolidation stage, the total investment intentions are summarised in the NBC corporate plan as an output of the planning process and compared with the likely investment ceiling figures last advised by the Department of Transport. The differences have been generally quite small (the plan requirements being larger than the likely ceilings) and related to the later years of the corporate plan. No action has been taken to reduce the investment forecasts, the assumption having been that by the time those years arrive the circumstances could well be different.

Similarly, the total external financing requirement is regarded as an output of the NBC plan rather than an objective. In this case, this is because the EFC cash limit is only known for one year ahead and because of the uncertainty surrounding local authority grants in the later years of the plan.

As in the BRB, but unlike the NFC, the company plan and NBC corporate plan forecasts are prepared in constant prices with allowance being made for real fares increases (assessed by each company) and real pay increases using the assumption issued by the Director of Research and Strategic Planning. The base price level used has been the average price level of the first year of each company plan including price changes expected during that year.

In respect of investment projects, DCF procedures have been used at all levels in NBC in connection with all projects other than the purchase of buses. The reason for excluding buses is that such projects have generally been related to their replacement and

because they could last for a very long time if they are adequately maintained. The rate of discount used is 10% and the cash flows are forecast in constant prices. No reference is made to the organisation's cost of capital. Before authorisation, all investment projects are checked to ensure that they are contained within the Company plans and those above £750,000 are referred to the Department of Transport for approval.

The concept of a required rate of return, announced in Cmnd 7131 (see Chapter 10 for related discussion in respect of the BRB) has not been applied to NBC.

13.2.2. Model Building

It is the intention of NBC that each of its companies becomes heavily involved in computerisation of its day-to-day administrative and accounting procedures. However, in terms of model building, the only project being developed is in connection with the optimisation of bus crew scheduling. In the opinion of the Director of Research and Strategic Planning, it will be ten years before NBC gets round to using computer models for its corporate planning.

13.2.3. Risk and Sensitivity Analysis

No form of risk or sensitivity analysis has been undertaken by NBC or any of the Companies in their plans. Additionally, it is not presently the intention of NBC to do so. This deliberate omission has been explained as being due to the fact that emphasis is placed, in NBC, on the integrity and achievement of the one year operating plans and budgets. The longer-term forecasts

(i.e. years 2 to 4) are not regarded as being of great significance and, almost inevitably, subject to amendment when the next plan is produced. These remarks also apply to the absence of contingency plans.

13.2.4. Budgetary Control

The budgetary control procedures used in each of the Companies and NBC headquarters are similar to the theoretical position outlined in Chapter 4. As noted earlier, they are fully integrated with the annual operating plans. The budgets are built up from company level and submitted to NBC headquarters where they are reviewed. This review takes the form basically of ensuring that they are in line with the operating plans.

Monitoring of the budget has taken place on a four weekly basis, through the upward submission of variance statements and related explanations. This has led to discussions at regional and headquarters level on what action to take to improve the position and, where appropriate, corrective action, as far as possible.

# CHAPTER 14

# CORPORATE PLANNING IN BRITISH AIRWAYS

To conclude this part of the study, it is necessary to describe the practice of corporate planning in British Airways. The pattern of the description will be similar to that provided in Chapters 10, 12 and 13, in respect of the other three organisations covered in this research. This will facilitate the comparison undertaken in Chapter 15, wherein the approaches to corporate planning of the four organisations are compared in summary form against the theoretical material provided earlier and against each other. The information given in this chapter was obtained from BA mainly in response to the questions listed in the structured interview programme.

## 4.1. The Process of Corporate Planning

Corporate planning has been undertaken in British Airways by the production of five-year plans in each year since its creation in 1972. Indeed, corporate plans were produced by both of the merged companies (BOAC and BEA) in 1971, providing a basis on which to start the process.

It was decided by BA that, from the outset, the process of corporate planning would be undertaken largely at headquarters level and a relatively large corporate planning department was created under a Planning Director who became responsible to Director of Economic Development. It will be observed in Figure 8.2., that the Director of Economic Development is a member of the board of BA. An outline organisation structure

of the Planning Directors department is given in Figure 14.1.

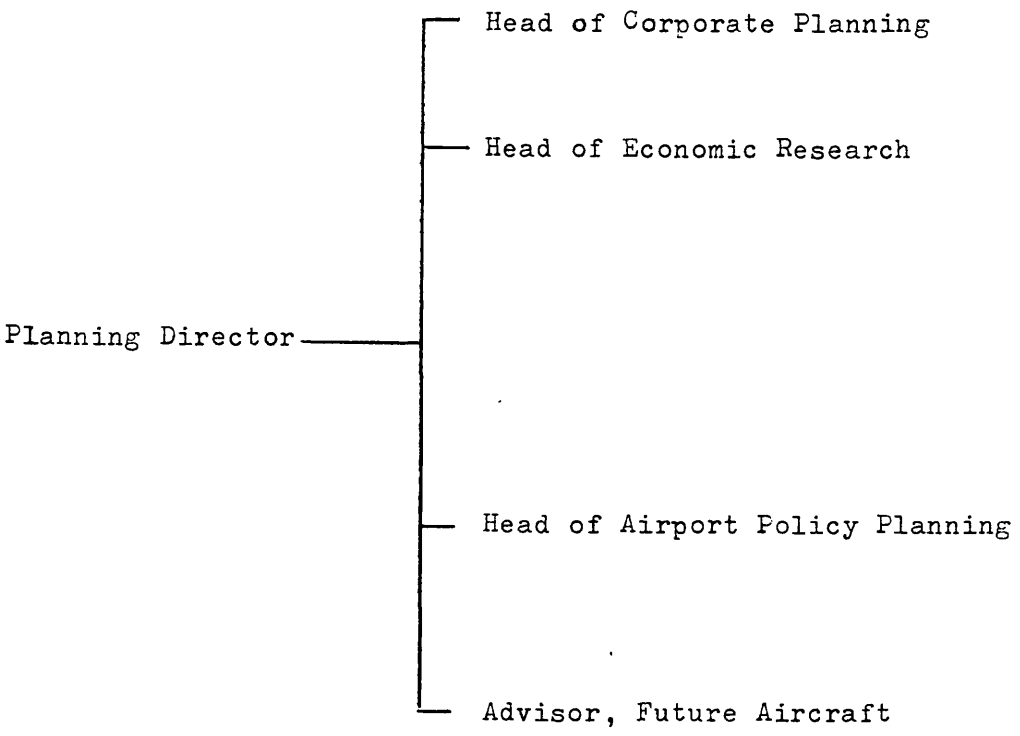



Figure 14.1. BA - Outline Structure of Planning Directors Department

(Source : Discussions with BA planners)

The main functional responsibility for the production of corporate plans is located with the Head of Corporate Planning who has a staff of 21. All of these staff have an airline background and two are qualified accountants. Some of the responsibilities are located with the Head of Economic Research who is assisted by seven economists, all with airline experience and some with statistics and systems analysis experience. Additionally, some of the corporate plan production responsibility is undertaken by the Head of Airport Policy planning (with 6 staff) and the Advisor, Future Aircraft (with

5 staff).

The five-year plans of the Airlines Group, are prepared mainly in the Planning Director's department. The plans of the other groups are prepared by the management teams of these groups; each coordinated by a Planning Manager within the group. The Head of Corporate Planning, with the assistance of the Finance Director's department, which attends to the consolidation of the financial and physical forecasts, is responsible for the annual production of the five year 'Airlines Group' plans and the overall corporate plans. The corporate plans consist of the consolidation of the plans of the Airlines Group and the seven smaller groups.

Overseeing these functional responsibilities, in respect of the production of the Airlines Group plan, there is a strategic steering group. This group is chaired by the Director of Economic Affairs and consists of the members of the executive management team given in Figure 8.2., except the Deputy Chairman and Chief Executive, the Secretary and Legal Director and the Public Relations Director.

Moving to the comparison with the model in Figure 3.5., the first element to be considered is values. These have never been expressly determined by BA. However, the implicitly accepted values have been explained to the author by the Head of Corporate Planning as being related to the persuit of growth in international and domestic market shares, financial viability, high service quality, operation of modern aircraft,

competitive price levels and, until recently, protection of the existing route structure.

Likewise, policies have never been explicitly determined. Apart from those which represent the values noted above, however, the Head of Corporate Planning has explained that, implicitly, they have included a very high regard for air safety and strict adherence to UK and international safety laws, and acceptance of the need for noise control. Until recently (i.e. the 1981/82 corporate plan which is currently being prepared, covering the five years from 1982/83 to 1986/87) other implicit policies have been to have no compulsory redundancy and to progressively improve real pay levels. These latter policies have recently been abandoned because of the financial difficulties which obtained during the financial year 1980/81.

In moving towards a policy of compulsory redundancy, in recent months, BA decided first to ascertain how many of their staff would be prepared to take early retirement or leave the organisation voluntarily, in both cases with redundancy settlements. The target reduction was 9,000 staff between September 1981 and June 1982, with the proviso that, unless sufficient volunteers come forward, the new compulsory redundancy would be operated. The author has been advised by BA planners that up to early November 1981, more than 9,000 staff had volunteered to accept the redundancy arrangements.

In regard to the new policy of not progressively improving real

pay levels, BA planners have advised the author that a policy of negative real increases is under discussion and will probably be operated during the next few years. Indeed, the Deputy Chairman of BA has already announced that 'There will be no pay increases for anyone until at least the end of September 1982' (Financial Times, 11 September 1981).

In respect of objectives, it was stated in Chapter 9 that the Government has required BA to earn sufficient profit after interest and taxes to fund its asset replacement programme and pay an appropriate return on the public dividend capital. Within recent corporate plans, this has been converted into a 'paramount financial objective' which has been to:-

'pay interest on loans
pay currently payable tax
pay dividend on public dividend capital
fund asset replacement programme
fund reasonable proportion of capital for growth'

Additionally, BA have created non-financial objectives, viz:-

'maintain our share of major markets in a competitive environment,
ensure compliance with legislated and publicly acceptable noise levels'

Prior to the corporate plan currently in production, there was a third non-financial objective which was to:-

'maintain stable employment by increasing staff productivity and remuneration levels'

It was noted in Chapter 9 that BA have proposed to replace this latter objective with one which seeks to improve labour productivity by 6% per annum in each of the years 1981/82 to 1984/85. This is designed to allow for the major reductions in manpower currently being discussed and being included in the 1981/82 five year-plan.

With the exception of the last item, the objectives referred to above have been somewhat open-ended. A far more definitive objective was that set by Government in 1979, following Cmnd 7131 (see Chapter 9) which required a 6% return on assets (re-valued at a current cost basis, with the resultant supplementary depreciation included in costs) in the years 1979/80 to 1981/82. However, this objective has not been included in the corporate plans since it has been regarded as unattainable. However, BA now are seeking to persuade the Department of Trade to accept a 4% return for 1982/83 and beyond. If agreement is reached, this financial objective will be included in future plans.

A further, and more definitive, objective has been the Government's external financing limit (see Chapter 9). This has not been included in the corporate plans because it has only been set for one year ahead. Instead, as for NBC, the financial forecasts included in the corporate plans have been regarded as the external financing requirements which then have to be agreed with the Department of Trade as being suitable for use as the external financing limits.

All of the objectives referred to above relate to BA as a whole. No attempt has been made by BA to sub-divide them over the groups. Instead, the assumption has been made that the overall objectives are suitable for the corporate plan, and also for the Airlines Group plan which covers the bulk of the trading position. The smaller 'subsidiary' groups have been expected to produce their own objectives. They have also been required to produce their own strategies and plans without the involvement of the Strategic Steering Group.

BA have not set goals as part of the corporate planning process. Indeed, it is accepted by BA planners that, to do so, would require more definition in the objectives. Instead, they have considered that goals emerge from the plans in that the forecasts of profit, investment and resources (particularly manpower) become the goals which each group is expected to achieve.

In respect of the determination of strategy, a considerable number of strategic studies have taken place which have dealt mainly with elements of the activities undertaken by the Airlines Group and the British Airtours Ltd. Group. Strategy development in respect of the other Groups has been undertaken by the management of those Groups without central coordination. BA have preferred to conduct their strategic studies on a piecemeal basis rather than overall strategic reviews of the entire organisation or the individual groups. The outcome of each of these studies has been fundamental to the production of the Airlines Group plans and, thus, the corporate plans. To

quote the Head of Corporate Planning 'each successful strategy is fed into the next plan.'

These strategic studies have been conducted in the Planning Director's organisation in and between each of the four departments within that organisation, as appropriate. They have been overseen by the strategic steering group which has also provided final approval of each strategy. In essence, each study has incorporated an internal and external appraisal but only in respect of the particular issues under consideration and not strategic development of the overall organisation or, even, of its Airlines Group. In recent years, these studies have included separate examinations of, and the development of variations in the strategy, in respect of:-

- route structure )
- aircraft replacement )
- markets and market share ) Some of these
- regulatory trends ) studies have also
- fares ) covered the British
- services ) Airtours Ltd. Group
- selected unprofitable networks )
- manpower productivity )
- operational performance )

The Head of Corporate Planning and the Head of Economic Research consider that this approach has been easier to adopt. They accept the author's view that the piecemeal approach is not as satisfactory as an overall strategic study but feel that it would be very difficult and time-consuming to undertake a

comprehensive strategic study for BA or even just the Airlines Group. In the circumstances, gap analysis has not been used. Additionally, contingency strategies have not been developed.

Moving down the model in Figure 3.5., the plans produced annually by BA and its groups have been very similar to the strategic plans identified in the model. Five-year plans have been prepared by the management of each group, except the Airlines Group where the plans have been prepared in the Planning Director's department. With the assistance of the Finance Department (consolidation of financial and manpower forecasts), the plans of the Airlines Group have been consolidated with the separate plans of the other groups, forming the overall corporate plan.

The production of the Airlines Group plans has usually taken about six months. Details of the main elements of the process are as follows:-

July - Preparation and issue of plan assumptions by Head of Economic Research. These assumptions have generally covered:-

macro-economic forecasts (UK and major international economies)

gross domestic product

consumers' expenditure

consumer prices

exchange rates

crude oil prices

demographic changes

holiday entitlements

company profitability

fare levels

aviation fuel costs

pay levels

August to

September - Forecast of markets, market share and receipts, recognising any strategic changes (resulting from the strategic studies) agreed by Strategic Steering Group since the previous plan was prepared. These forecasts are prepared by the Director, Commercial Operations in conjunction with the General Managers of each route division.

October to

November - Forecast of resources and costs prepared by Head of Corporate Planning, again recognising strategic changes agreed by Strategy Steering Group.

November - Advance summary of plan forecasts submitted to Strategic Steering Group for discussion of the reasonableness of the forecasts.

December - Final summary of plan forecasts incorporating any changes agreed by the Strategy Steering Group. Presentation of the plan forecasts to the Strategy Steering Group.

The plans of the other seven groups have been prepared by the management teams of those groups and not by the Director of Planning. However, the same plan assumptions have been used. Again market share forecasts have been calculated first, then

the resources by each department and finally the financial evaluation by the Finance department.

Consolidation of the plans of the eight Groups has generally taken place in January / February, thus enabling them to be presented to the 'Executive Board' (i.e. the executive management team shown in Figure 9.2.) in March and the full Board in April.

After discussion at the full board meeting the corporate plans have been submitted to the Department of Trade. Subsequent discussion with Department of Trade officials has generally centred around the strategic developments and the financial forecasts. At no time has this led to formal agreement to the plans but merely a noting of its contents and an acknowledgement that there are no fundamental objections to the strategic content. The plan assumptions/forecasts on which the plans are based have usually been discussed with Department of Trade officials at the outset to ensure that they have no serious objections to these vital elements.

Action plans, called 'cost revenue estimates' have been prepared annually by the Airlines Group and the British Airtours Ltd. Group, but not by any of the other Groups. These have covered the first year of each Group plan i.e. the first year after the base year. In respect of the Airlines Group, these cost revenue estimates have been prepared in the Director, Commercial Operations department. In the earlier plans, these cost revenue estimates were prepared by route division in consultation with the six General Managers of the route divisions.

However, this has not been the case in recent years. The cost revenue estimates for British Airtours Ltd. Group has been produced by the management team of that group.

All of the Groups have prepared one-year budgets annually (summarised within the finance function) and, in respect of the Airlines Group and the British Airtours Group, these have always been reconciled with the cost revenue estimates. The monitoring of the budgets and the cost revenue estimates have represented the only plan feedback process which has been undertaken. No back-check reports have been prepared to monitor progress in implementing strategy.

Contingency plans have not been prepared and there are no intentions to do so. Instead, the Head of Corporate Planning considers that the fact that the plans are updated annually renders that part of the process unnecessary. However, he has acknowledged that the deterioration in results in 1980/81 compared with the forecasts contained in the 1979/80 corporate plan might have been handled more readily had a contingency plan been prepared to deal with such a large drop in receipts.

Indeed, what has occurred recently is that production of the 1981/82 Airlines Group plan has been speeded-up to deal with an emergency financial situation. This plan is described in BA as the 'survival plan' and it incorporates the results of a strategic study in respect of manpower productivity which prescribes major manpower reductions in 1982, negative real increases in staff costs and some route withdrawals.

When questioned about the general lack of involvement of the headquarters' departments and the route divisions in the production of the Airlines Group plan, the Head of Corporate Planning stated that the BA approach was a conscious decision which was generally well supported. He felt that the expertise and strategic knowledge needed to produce the Airlines Group plan lay in two headquarters' departments only - Director of Commercial Operations and Planning Director. He added that it was perhaps appropriate to bring the route divisions into the process only at the cost revenue estimate (action plan) stage but, as noted earlier, even that has not occurred in recent years.

The Head of Corporate Planning also advised the author that the Airlines Group and corporate plans produced in the early and mid-seventies were quite good in that they predicted growth and related productivity improvements and these occurred. However, those produced since about 1977 have not been accurate for two reasons, viz:-

1) They did not predict the 1980/81 economic recession.
2) Whilst the abandonment of 'price fixing' was forecast, it had not been assumed that it would occur as early as 1979 and with the severity of price-cutting which has ensued.

In future plans, a much greater emphasis will be placed upon cost reductions, particularly in respect of manpower savings. These cost reductions are seen as being crucial to the survival of the organisation.

## 14.2. Corporate Planning Procedures

In respect of procedural issues, these will again be dealt with in the order of the theoretical description provided in Chapter 4.

### 14.2.1. Forecasting

The bulk of the forecasting in respect of the Airlines Group plans has been undertaken through the use of computer models. These use leading indicators (i.e. selected plan assumptions) as the main input to assess the size of the overall market and, through a pattern of assessed pre-determined relationships, the market share and receipts are calculated. These forecasts have frequently been adjusted in the Director, Commercial Operations department on the basis of their expert opinion (again the visionary forecast technique) of the course of future events. The results of this procedure have then been used in a second computer model which, again through a mechanism of pre-determined relationships (themselves largely based on the visionary forecast technique), has been used to calculate resources and costs. All of the computer modelling has taken place within the Planning Director's department.

The forecasting in respect of the other Group plans has been undertaken manually using a forecasting structure similar to that applied in the BRB, NFC and NBC. In this case, however, unlike the BRB, the investment specification has resulted from the marketing specification and is not regarded as an initial input.

Most of the forecasting in respect of the strategic studies has been of the visionary forecast technique type with some use of the models referred to above. Additionally a computer model has been designed by the Head of Economic Research which measures income and price elasticity for each major route, fare category and journey direction. This model has been used in the strategic studies in respect of markets/market share and fares.

All of the corporate/group plan and cost revenue estimate forecasts produced by BA have been in estimated actual prices and not in constant prices.

In terms of appraisal and control of capital investment, it has been the practice to ensure that all projects have been included in the Group plans before they are authorised. All large projects (80% of investment relates to aircraft purchase) have to be approved by a headquarters Capital Expenditure Committee and those for the purchase of aircraft (and major infrastructure projects) have also to be submitted to the Department of Trade for approval.

A discount rate of 6% real has been used to evaluate all projects, with the cash flows being expressed in estimated actual price levels and the discount rate being increased to a money rate of return by the addition of a (varying) forecast rate of inflation. No attempt has been made to assess the organisation's cost of capital.

The Government investment ceilings have been ignored in the corporate planning process, the assumption having been that one of the purposes of the corporate plan has been the need to acquaint Government of the investment needs and overall external financing requirements.

14.2.2. Model Building

The progress in this direction has already been noted. Further developments are anticipated (but not yet developed) to produce models which will assist further in strategic studies and in the production of the plans of the seven smaller Groups.

14.2.3. Risk and Sensivity Analysis

No form of risk analysis has been undertaken by BA. The head of corporate planning has advised the author that it had been tried a few years ago but it was found to be too difficult to assign probabilities to what were perceived to be a large number of interactive variables. Instead, a decision was taken to include a sensitivity analysis in each corporate/Group plan identifying the major areas of risk and the possible extent of those risks separately. The areas normally dealt with in this way have been aviation fuel prices, exchange rates and the market shares in vulnerable routes. However, as noted earlier, this has not led to the production of contingency plans.

14.2.4. Budgetary Control

The budgetary control procedures used in BA are in line with the theoretical position outlined in Chapter 4. However, as noted earlier, they are integrated with the action plans (cost

revenue estimates) only in respect of the Airlines Group and the British Airtours Ltd. Group.

The budgets are built up from company level (and cost centres within each company) and reviewed at Group and headquarters level. They contain profit and loss account, investment expenditure and cash flow details, supported by details of key physical facts.

Monitoring takes place at all levels on a monthly basis. This monitoring is based upon the upward submission of variance statements with related explanations. This leads to discussion at headquarters, group and company levels and, where appropriate, corrective action as far as possible.

PART 4

# CHAPTER 15

## COMPARISON OF THE APPROACHES TO CORPORATE PLANNING

In Chapters 10, 12 13 and 14, details were given of the practice of corporate planning in the four organisations covered in this research. In respect of each organisation, a comparison was made between theory and practice, with many of the differences being supported by the views of the planners concerned.

It is now proposed to take that analysis further by examining what the author judges to be the main features of the theory versus practice differences which have been identified, in respect of each of the four organisations. This examination will be structured around the first six hypotheses given in Chapter 1.

However, before moving to the hypotheses, it is considered, by the author, to be useful to commence by isolating what appear to be the primary reasons for undertaking corporate planning within each of the four organisations. Quite clearly, one of the main reasons has been that the sponsoring departments (Department of Transport and Department of Trade) have required each of the four organisations to provide information about the strategies they intend to follow, which have to be politically acceptable, and the expected financial results, which have to be consistent with future expectations of overall public spending limits.

From the point of view of the four organisations, however, the motivation has been different. Here, from the outset, it has been far more a question of survival or, at least, a demonstration that survival is both justified and possible. In respect of the BRB, with its deteriorating financial and trading situation in the 1960's, corporate planning was entered into earnestly and enthusiastically. It was seen as a process whereby the BRB could demonstrate that its Railways business still had a vital role to play in the economy and, given certain strategies (including a good deal of investment), could enhance that role.

In the NFC, corporate planning was seen as the appropriate meansof demonstrating and ensuring that the organisation could move from an era of losses and Government support to an era of complete financial viability and, as far as possible, independence. Aggressive strategies of product/market selection, coupled with major surgery of the operating practices and resources were seen as the means of achieving this.

A totally different situation has existed at NBC who were reluctant to get involved in corporate planning but were finally persuaded to do so by the Department of Transport. From the outset, NBC has not placed as much stress on the need for, or usefulness, of their plans as have the other three organisations. However, they have acknowledged that it has helped them to demonstrate to the Department of Transport that survival, which has been seen as almost guaranteed for purely social reasons, depends on continued injections of funds by Government at

central and local authority level.

Finally, in BA, corporate planning has been seen as the means of demonstrating that the organisation could expand in the highly competitive international air transport environment. At the same time, it could keep up to date with changing technology and be financially viable. More recently it is seen as the mechanism for demonstrating that the current financial crisis can be overcome.

Turning to the hypotheses, the first of these was that 'The four organisations studied may have developed corporate planning processes and procedures which are at variance with generally accepted theory and also differ one with another.' This is, in fact, the case, the differences being both numerous and varied.

Looking firstly at the process of corporate planning, the examination of the determination of values in the corporate planning activities of the four organisations has shown that it is a stage in the process which has received varied attention. In the BRB, it took until March 1981 for the first formal statement of values to be promulgated; eleven years after the start of corporate planning. In the NFC, the situation was found to be closer to established theory in that a 'statement of mission' was prepared in 1978. Similarly, in the NBC, the 'overall planning objectives' which is really a statement of values has been developed in its recent plans. However, in BA no attempt has been made to explicitly determine values.

A common feature of the values which have been formally determined has been the fact that they have resulted mainly from 'in-house' considerations and not from formal joint discussions with the sponsoring Government departments. Consequently, they only take on board what are perceived to be the values of Government.

In respect of policies, in explicit terms, these are notable for their absence in the four organisations. Instead, each organisation has developed a series of implicit policies which are considered to have always been taken into account when strategy has been determined. However, it was very interesting for the author to witness the degree of difficulty those planners interviewed had in articulating what those implicit policies were. This suggested that advantages, at least in communication, could be obtained from ensuring that a comprehensive list of policies is prepared in respect of each corporate plan.

In respect of financial objectives, these have been a mixture of Government targets and 'self-set' objectives, both determined without reference to mutually and formally agreed values. The starting point in each case has been the Government set objective in the enabling legislation. The BRB have since been set a PSO cash limit, which was not based on any corporate planning considerations, and an external financing limit (from 1979/80) which, although only set for each 'base' year (i.e. the budget year), has recently been estimated forward by the BRB as a vital financial objective without the agreement of the Department of Transport. However, the 'break-even' requirement

of the Non-passenger business (Railways Act 1974) can be said to have emerged from the corporate planning activities, in that it was based upon the Interim Rail Strategy contained within the Railway Policy Review (and thus the 1974 Rail Plan). The same has applied to the interim financial targets, although these were declared as 'interim' pending completion and acceptance of the Business Strategy Studies.

In NFC, it has taken until 1980 to develop a more challenging objective to that originally set (1968) by Government and even then without the benefit of a timescale of achievement. In NBC, the original Government objective (1968) was followed by annual external financing limits (from 1979/80). More recently, the original objective has been enhanced by the 1985 'contribution' target, but that also did not emerge as a consequence of their corporate planning activities. In BA, the Government set objective was converted by the organisation into an open-ended 'paramount financial objective'. This was accompanied in 1979/80 by a more definitive Government target return on assets but this has not been incorporated into the corporate planning process. Additionally, BA has also been subjected to annual external financing limits since 1979/80.

The author's view on the financial objectives so far determined by, or set by Government to, the four organisations is that they have not been wholly consistent with the normative model which requires that they be long term, ambitious (to the extent specified by the explicit or implicit values) and be well defined. Too much reliance has been placed on Government

target setting, rather than a concerted 'in-house' effort to determine what should be achieved or joint determination with the sponsoring Government departments.

This has applied equally to non-financial objectives, where little progress has been made in the four organisations. In the BRB, no attempt has been made to determine non-financial objectives and the Passenger 'service level' objective included in the Railways Act 1974 has been regarded more as a constraint than an objective. In NFC, there are no non-financial objectives, nor any plans to produce any. This has also applied in respect of NBC. In BA, however, efforts have been made to create non-financial objectives in respect of market share, noise pollution and maintenance of manpower levels, the last objective having been changed recently to a labour productivity target which requires considerable manpower reductions.

Quite clearly, the development of long term, ambitious and clear-cut non-financial objectives has not been considered to be particularly important in the BRB, NFC and NBC. Instead, they have given paramount attention to their financial objectives, however well defined.

Similarly, little attention has been paid to the establishment of intermediate goals as marker points on the road to achievement of the objectives. In the BRB, NFC, and BA, this has not been adopted as part of the process. Only in NBC have goals been established, whereby the overall financial objective has been converted into a series of annual profit 'targets' for each

of the NBC operating companies. However, insufficient emphasis has been placed on the essential need to produce company forecasts which achieve these targets.

The development of strategy has been the subject of considerable attention in each of the four organisations, involving to a considerable extent, internal appraisals of strengths and weaknesses and external appraisals of the environment but not starting with a gap analysis. In each organisation, a piecemeal approach has been adopted rather than an overall strategic review. This has been partly because of the size of the overall task but also because the four organisations have considered that their (implicit) values, which have taken account of the perceived values of Government, have not generally permitted radical strategic changes.

For example, aside from the current and also piecemeal developments on privatisation (brought about by Government directives and not corporate planning), the BRB have not felt it appropriate to consider strategy in an overall study perhaps leading to the elinination of one or more of its subsidiary businesses. Instead, the survival of each business has been taken for granted. The subsidiary businesses have largely been expected to develop their own strategy and, only in respect of the Railways business, has there been extensive headquarters involvement (i.e. the Business Strategy Studies). In NFC, the strategic efforts have been unstructured and have relied upon strategic ideas being generated by the management teams at all levels. Here again, however, the basic assumption has been

made that each of the groups should survive and, indeed, is primarily responsible for developing its own strategy. In NBC, all of the strategic effort has taken place at company level, apart from the 'once-off' Market Analysis Project conducted in 1978. In BA, the piecemeal approach has been of two kinds. Firstly, the seven smaller groups have been required to produce their own strategies. Secondly, the strategy development of the Airlines Group has been undertaken at headquarters level by strategic studies dealing with facets of the business activity, e.g. route structure, aircraft replacement and markets/market share, rather than a complete review of Group strategy.

The corporate/business/group/company plans produced by each of the four organisations have been very similar to the strategic plans noted in the model in Figure 3.5. Each has contained, not only an outline of the strategy, but forecasts of the expected outcome, in physical and financial terms for the years of the plan. Both the BRB and BA have considered it necessary to produce these plans covering a five year period and, in respect of the BRB a 'snapshot' view of the tenth year has generally been produced. NBC have chosen to forecast four years ahead to suit the financial forecasting requirements of the Department of Transport. NFC, however, have chosen to forecast three years ahead.

Three out of the four organisations have prepared detailed action plans in line with the model in Figure 3.5. NFC have prepared one year action plans which have represented a detailed

programme of events agreed between headquarters, group and company levels, designed to ensure implementation of the first year of the strategic plan. A similar one-year action plan has existed at NBC between its headquarters and company level and, at BA, between headquarters and group level (or, more accurately, only the Airlines Group and the British Airtours Ltd. Group). None of these organisations has considered it necessary to produce action plans covering a period longer than one year i.e. for the medium term of say 2 to 5 years as recommended in Chapter 3.

The fourth organisation, the BRB has not produced action plans and has chosen, instead, to set one year 'budget objectives' to the five Regions of the Railways business and to the subsidiary businesses. In respect of the subsidiary businesses, this has not been a fundamental problem since they have produced their own strategic plans and thus have had a clear idea of their outline intentions for the first year of those plans. In respect of the much larger Railways business, however, the absence of action plans agreed between headquarters and the five regions has caused considerable difficulty, particularly when coupled with a lack of communication of the content of the strategic plan of the Railways business and a lack of explanation of how the budget objectives have been established. This issue will be dealt with further in Chapter 16.

The budget process for each of the four organisations has been in line with the theoretical position given in Chapter 3, except that in respect of the BRB there has been no action

plan with which this budget can be reconciled. In respect of feedback and control, the emphasis in the BRB has been placed completely on the budget monitoring. No back-check arrangements have existed in respect of the earlier stages of the corporate planning process. In the other three organisations, the feedback and control has been exercised through monitoring the action plans and the budgets. Again, no back-check arrangements have existed in respect of the earlier stages of the corporate planning process. In all four organisations, the strategic plans have, instead, been regarded as free-standing plans without much regard for the need for a formal and structured review of the progress made in implementing the previous plans and the lessons to be learned. The view has generally been taken by the planners concerned that, informally, there has been a general understanding of how well the strategies and strategic plans have been implemented and that this understanding would have been taken into account in preparing the next plan. It will be seen in Chapter 16, that, in respect of the BRB, benefits might have been obtained from adopting a more structured approach, given the dimensions of the differences between the planned and actual results.

Finally, none of the organisations has produced strategic contingency plans largely because of the difficulties of preparing such plans and the general feeling that, whatever goes wrong, can be dealt with in the next strategic plan.

It can be seen from the foregoing that the approaches to the process of corporate planning have been at variance with

established theory in a number of respects in each of the four organisations. The significant differences have been related to the determination of values, objectives, contingency plans and, in respect of the BRB, action plans.

In the opinion of the author, these differences have been related to the nature of the four organisations i.e. the fact that they are nationalised industries which do not have as much freedom as non-public corporations to develop their own values and have to rely heavily on Government legislation and direction. For corporate planning to be effective in these circumstances, the aspirations of the Government and each of the organisations must be combined to produce mutual agreement in respect of what is required to be achieved and mutual commitment to the means of achievement. However, it is evident from the research, as noted in the foregoing paragraphs of this chapter, that this has not been the case.

In essence, there is a fundamental dilemma which has resulted from a clash of values which has pervaded the atmosphere in which corporate planning is conducted. This clash has been connected with the existence of political and economic influences at national level which have been crucial to Government decision making but not, of necessity, to the nationalised industries. In particular, the Government, for political and economic reasons, have historically taken an essentially short term view of most aspects of its handling of the economy. Whilst it has produced, annually, its spending forecasts for four years ahead, these forecasts have been

changed at least annually and often at short notice as economic events and political influences (including changes of Government) are brought to bear. Additionally, since the fiscal year 1979/80, the Government have attempted to control expenditure in the public sector (including nationalised industries, as noted in earlier chapters) through the use of external financing limits. These limits have only been set for one year (fiscal year) ahead. Additionally, they have often been arbitrarily assessed, reflecting target cuts to reduce the public sector borrowing requirement and have not necessarily been consistent, therefore, with the stated requirements of the organisations concerned. Thus, the four organisations covered in this research cannot be certain of their EFL targets for more than one year ahead and yet they represent what will become fundamental financial objectives for all the years of their strategic plans.

This approach has been grossly inconsistent with the strategic requirements of the nationalised industries who, following preparation of their strategic plans, have needed long term Government commitment to the financial consequences of those plans. This commitment has not been established and the net result of this has been that a partnership situation has not been established. Yet, a partnership is really essential since none of the nationalised industries can implement its plans unless it has ongoing acceptance of the Government of the 'means' as well as the 'ends'. By and large, these means have a Government price tag, covering issues such as capital investment ceilings and external financing limits; areas where

long term commitment has been essential but not forthcoming.

This situation is highlighted by the fact that the sponsoring Government departments, on receipt of the corporate plans of the four organisations have generally only given broad approval to the underlying strategies (sometimes after questioning some elements) but effectively, merely noted the financial forecasts. These forecasts have, on some occasions, been incorporated in the next Government expenditure review only to be varied in subsequent reviews, often at short notice, as other events take precedence. It will be seen in Chapter 16 that this fundamental dilemma has impacted heavily on the strategic plans of the BRB and thus the success thereof.

Looking secondly at corporate planning procedures, the examination of the forecasting procedures of the four organisations has shown that they have made little use of the panoply of techniques which are covered in the literature. Indeed, there has been a close similarity of approach between the organisations with 'in-house' macro-economic forecasts often being used as leading indicators but with the final forecasts most often having been produced through the use of the visionary forecast technique. This has placed a heavy emphasis on the expertise of the individual forecasters.

In regard to the macro-economic forecasts which have been produced by each of the organisations, these have invariably been based on externally published forecasts (including those of Government) but, in the final analysis they have also been

the result of the use of the visionary forecast technique. It is interesting to note that, in each organisation, the macro-economic forecasts have generally been discussed with the sponsoring Government department before their use in the strategic plans. These discussions have never led to a major disagreement, suggesting that they have received broad, if not actual, support.

In respect of investment appraisal, whilst each organisation has made extensive use of DCF procedures, none has been concerned with the concept of cost capital. However, in each organisation, steps have been taken to ensure that projects being authorised are contained within the strategic plans.

In regard to the use of computer models in the preparation of strategic plans, the research has showed that the BRB and BA have used models, of the simulation type, extensively and are planning further developments. On the other hand, in NFC and NBC, computer models are not used and there are no plans to do so.

Moving to risk and sensitivity analysis, only the BRB has made use of a risk analysis technique, although, as will be seen in Chapter 16, not without difficulty. NFC and BA have made limited use of sensitivity analysis through identification of the likely major risks. However, this has not led to the production of contingency plans. NBC, however, have not used sensitivity analysis and do not intend to do so.

Finally, in respect of budgetary control, the procedures in each of the four organisations were found to be compatible with the outline theoretical description provided in Chapter 4.

It can be seen from the foregoing that some of the approaches to corporate planning procedures have been at variance with the established theory. However, in the judgement of the author, these differences are not as significant as those noted in respect of the process of corporate planning. One important exception, however, is seen as being the lack of a sensitivity analysis in NBC plans. This can be a major input into the development of contingency plans, which are considered by the author to be a significant element of the corporate planning process.

The second hypothesis was that 'Each organisation may have found it necessary to develop its corporate planning process and procedures according to its own perceived needs rather than with central guidance.' This hypothesis has been found to be correct with not one of the four organisations having received specific guidance from Government on the corporate planning process and procedures. The sponsoring Government departments have adopted a passive role, occasionally commenting on what they have received and not what they consider ought to be provided in the corporate plans.

This issue was raised in a National Economic Development Office (NEDO) report entitled 'A Study of UK Nationalised Industries' in 1976, wherein it was stated that 'There are no specific

statutory provisions for the nationalised industries to submit corporate plans' although section 4 of the Railways Act 1974 'implies that the Minister should approve the board's long term plans.' The Government's response to that report (Cmnd 7131) commented that 'development plans and investment programmes of the nationalised industries, covering periods of 5 years ahead, have increasingly been formulated within the wider context of both the industries' and the Government's objectives and policies.' Joint discussions of these plans and the economic/industrial prospects on which they were based was encouraged. Additionally, the response went on to say that 'The Government considers that the corporate plan, and the examination of strategic options, should have a central place in the relationship between the nationalised industries and their sponsoring departments.' However, a framework for the preparation and discussion of nationalised industry corporate plans did not emerge from this initiative.

Further, the Government response did not provide an effective indication of how mutual agreement of and commitment to the nationalised industries' plans could be achieved.

The closest the response came to creating a climate of commitment was in respect of investment ceilings where it was stated that Ministers had 'agreed that they would aim to give the industries ..... approval for 100% of their agreed investment programme for one year ahead, 85% for the second year and 70% for the third year (for which under the previous procedures, no approval had been given at all).' The author

considers that this approach was far short of the mutual agreement and commitment which should, ideally, be expected. Indeed, it will be seen in Chapter 16, that the lack of Government commitment to the investment content of the 1974 and 1975 Railways business plans (despite earlier Government statements indicating support for the underlying strategies) has had a material impact on the strategic problems of the BRB.

Prior to the NEDO report (1976), there had been a Select Committee attempt at providing some specific guidance to the nationalised industries (or more particularly the British Steel Corporation). That was contained in the First Report of Nationalised Industries Session 1972/73 in respect of the British Steel Corporation which contained reference to what was known later as the 'Benson Brochure procedure' which was a planning procedure recommended for use in respect of the British Steel Corporation.

That procedure was summarised in a model produced by Harris and Davies (1981) which is reproduced in Figure 15.1. Harris and Davies pointed out that 'The system recommended an annual three tier system of planning' involving long term strategic plans, medium term development plans and annual operating plans. These were to be accompanied by quarterly progress reports, linked to annual budgets (which were themselves related to the annual operating plans). The main interface between the BSC and Government was seen as being related to the long term strategic plans, the investment proposals and the quarterly progress reports.

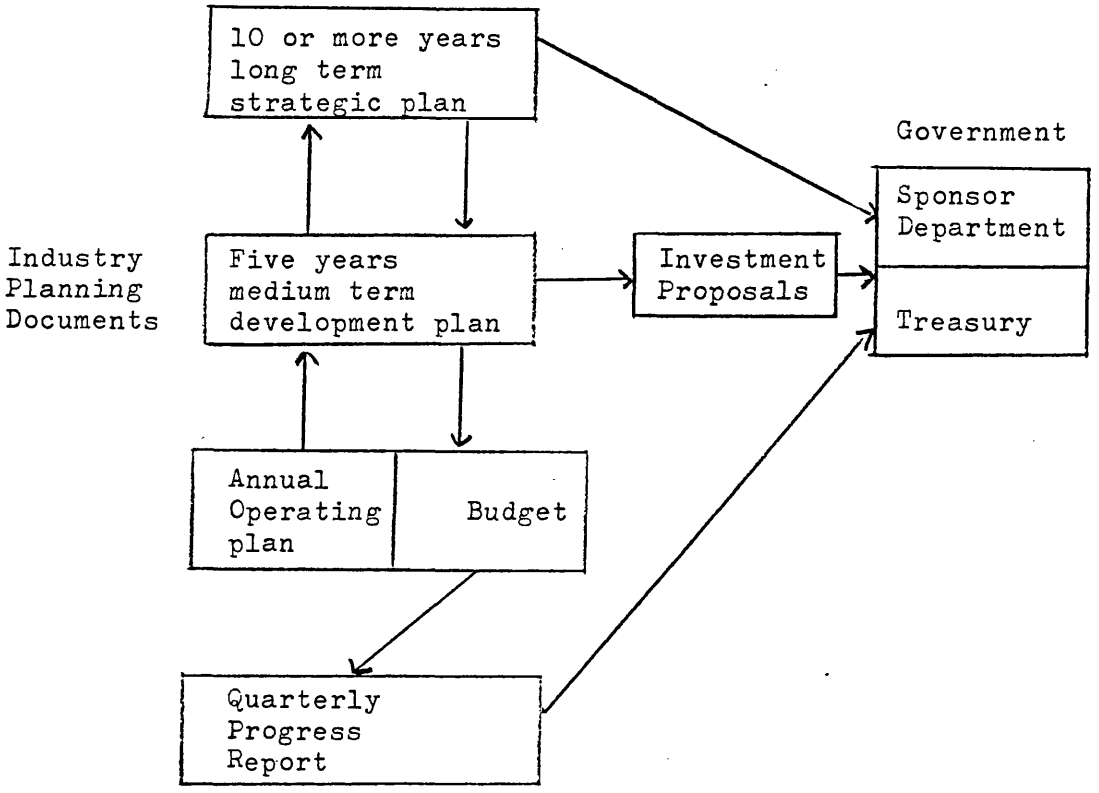



Figure 15.1. Benson Brochure Procedure

(Harris and Davies, 1981)

However, this initiative, did not take on any significance as far as the four organisations covered in this research were concerned and, as noted earlier, no direct guidance from Government has been forthcoming to them to enable them to produce their corporate plans in any particular way or form. Instead, it only led, in part (and along with other Select Committee observations) to, the Government giving some clarification to the definition and purpose of corporate planning. That was provided in Cmnd 6106 (1975) as follows:-

(a) Definition

'Corporate planning is a continuous process under which an industry can set objectives and priorities to form a coherent strategy for its business as a whole, organize the actions needed to achieve its objectives, and monitor the results of its actions against those objectives.'

(b) Purpose for the Industry.
'Benefit from considering individual actions against the background of an up-to-date strategic plan covering the whole business. There should be a greater sense of cohesion between the various parts of an organization if managers are enabled to take a comprehensive view of the aim of the business and the future development of the industry.'

(c) Purpose for Government
'Easier for government to see the strategic options open to each industry and fully developed corporate plans ought to provide a better framework for the annual review of 5-year investment plans. The knowledge that the industry is pursuing a well thought out strategy should enable the government to concentrate on major issues without resorting to the examination of relatively detailed matters.'

In Cmnd 6106, the Government indicated that the evolution of corporate planning in the nationalised industries would take time. It did not deal with the problem of creating some form of mechanism for producing Government commitment to achievement of agreed nationalised industry plans.

The third hypothesis was that 'There may be little evidence of the organisations contributing to a wider nationalised transport sector corporate planning activity.' Before testing this hypothesis, it is useful to consider what would be the purpose of such an arrangement. The author's view is that although the process of corporate planning was created and developed to deal with the future development of corporate entitities such as a company, nationalised industry, local authority, etc., there is no fundamental reason why the process cannot be extended to encompass two or more organisations, jointly. Such a suggestion has some logic and possibly even merit in respect of groupings of nationalised industries because they are all ultimately responsible to the Government and some can be grouped together

in a meaningful fashion.

Such a grouping might be useful for example in respect of those UK nationalised industries concerned with energy i.e. the National Coal Board, British Gas and the British Electricity Boards. Each of these responds to Government through the Secretary of State for the Department of Energy and some form of coordinated corporate planning might well be beneficial, possibly also involving the United Kingdom Atomic Energy Authority.

Returning to the organisations covered in this thesis, however, a less clear cut grouping might be useful in respect of nationalised transport or, at least, the domestic transport elements (i.e. within Great Britain), of nationalised transport. Assuming the latter, it being the more clear-cut suggestion, this would involve coordination, in some way, of the corporate planning activities of the following nationalised industries:-

British Railways Board
National Freight Company
National Bus Company
British Airways
Scottish Bus Company
Post Office

Of course, each of these organisations is not only involved in domestic transport within Great Britain. In the case of the BRB, the bulk of its Sealink UK Ltd. subsidiary activity is concerned with Continental and Irish traffic. Part of the NFC receipts are generated from overseas journeys. The bulk of

British Airways traffic is in respect of international air services. The Post Office is mainly concerned with mails and counter services but also has a large parcels network, all of which handle international traffic. Nevertheless, it seems quite possible for the Government to require of these organisations that they produce separate plans as part of their corporate plans for that portion of their business which is concerned with domestic transport of passengers, freight and parcels within Great Britain, to facilitate some form of coordination.

Such an arrangement would, of course, require to have a purpose. This might be to enable the Government to optimise utilisation of publicly owned resources, reduce Government expenditure, improve coordination between modes or a combination of all three. Such considerations would almost certainly take into account the Government's transport responsibilities aside from those vested in the nationalised industries, i.e. road building and maintenance. It would also require some form of central governing body with the ability to direct one of the nationalised industries to do what it would not otherwise choose to do for the 'greater good' of the nationalised transport sector. The predominant Government department in this context is the Department of Transport which could, conceivably, reach an understanding with the other departments concerned about the operation of such an arrangement.

It is not the purpose of this thesis to judge whether such a development would be of overall benefit or to make

recommendations. Instead, it is intended only to consider whether the past corporate planning activities of the four organisations covered in the research have provided any evidence of moves in this direction.In previous chapters, there has been only one mention of this issue. That was a reference in Chapter 11 to the need for the 'forward plans of the BRB and NFC in the parcels field' to be 'compatible' and 'jointly progressed.' This was related to the 1974 Rail Plan and assurances were given to Government to that effect. However, they were quickly forgotten and became of no importance in the ongoing planning activities.

However, aside from the formal corporate planning activities discussed in earlier chapters, there has been one further attempt at establishing some form of coordinated planning in the nationalised transport sector and that was connected with the creation of the Freight Integration Council (FIC) under the Transport Act 1968. The FIC membership consisted of the chairman of the BRB, the chairman of the NFC, an independent chairman and four other members appointed by the Secretary of State for the Department of the Environment (at that time the Ministry of Transport was part of the Department of the Environment). Its remit was as follows:-

> 'it shall be the duty of the Council to consider any matter relating to the provision and operation by the relevant transport authorities (that is to say, the Freight Corporation, the Railways Board, the Docks Board, the Waterways Board, the Scottish Group, the British Overseas Airways Corporation, the British European Airways Corporation, the British Airports Authority and the Postmaster General) and by the subsidiaries of those authorities of an integrated freight transport service, being a matter -

(a) which is referred to the Council for their consideration by the Minister or by any of the relevant transport authorities or, being a matter relating to the Scottish Group, by the Secretary of State; or

(b) which appears to the Council without any such reference to be a matter which requires or may require consideration by the Minister or, being a matter relating to the Scottish Group, by the Secretary of State,

and, where it appears to the Council to be desirable, to make recommendations with respect to that matter to the Minister, and, where that matter relates to the Scottish Group, to the Secretary of State; and -

(i) the Minister may give to the Freight Corporation, the Railways Board, the Docks Board or the Waterways Board, and

(ii) the Secretary of State may give to the Scottish Group,

such directions as appear to him to be requisite in consequence of any recommendation of the Council.'

Clearly, under these arrangements, it was intended that there should be an attempt at coordinating the plans of the organisations mentioned above, in respect of freight transport, (in this context, the term freight included parcels). The ultimate objective was seen as 'integration' of freight transport and not merely coordination.

Only one report was produced by the FIC (or rather McLintock, Mann & Whinney Murrey on behalf of the FIC, in 1970) and that was a parcels traffic study in the Hull area. In fact, as reported in the Second Report from the Select Committee on Nationalised Industries - National Freight Corporation (November 1973) the FIC, whilst it had

'held a number of meetings in the early days of its existence and produced one Report, since the summer of 1970 it has been almost completely inactive. The last meeting was held on 30th June 1971. Since then a Second Report

> has been agreed to, but this was done without the Council holding a meeting. There are no references outstanding and the Council itself has no plans of its own for future work.'

The Committee went on to recommend that the FIC be abolished which was done in the Transport Act, 1980. Had the FIC fulfilled the original intentions, it may be that this would have led to a degree or coordinated corporate planning. It might indeed have been a step towards the full coordination of nationalised transport industries' corporate planning.

In the circumstances, the author is bound to conclude that the hypothesis is proven.

The fourth hypothesis was that 'Elements of the general theory of the process of corporate planning may need to be modified to suit the special needs and characteristics of the organisations'. In the light of the research and of discussions with planners within the four organisations, detailed in previous chapters, the author's judgement is that the general theory of the process of corporate planning does not need modification to deal with the corporate planning requirements and practices of the four organisations.

However, two issues have been noted earlier which, in the opinion of the author, demand further consideration in this context, in order to clarify this judgement. The first concerns the question of the determination of values and, what was described earlier as the 'fundamental dilemma'. In the synthesis of the theory of the process of corporate planning given in Chapter 3,

the author remarked that, in the nationalised industries, values are often partially imposed by rules and regulations, which reflect the values of another tier of management (i.e. the Government) which equally often have fundamentally different motives, aspirations and timescales to those of commercial organisations or indeed, to the boards of the nationalised industries. The essential feature is for these values to be discussed and agreed before corporate plans are prepared.

It would be too easy to say that the corporate plans of the four organisations require some modification of this theoretical situation to recognise that full discussion on, and agreement of, values has not been achieved in the past and therefore cannot be in the future. To do so would be to admit that the corporate plans of the four organisations would not be reasonably firm intentions but merely a statement of what might happen, and the organisations would like to happen, if the Government do not prevent it by producing annual EFL targets, investment ceilings, etc. which prevent it.

That may be a reasonable view in the light of what has occurred but his thesis is concerned, in this context, with what ought to happen. In that respect, and in the judgement of the author, the established theory is correct. This requires that full discussions take place between the Government and the four organisations to establish mutually agreed values, leading to agreed objectives and commitment to the means of their achievement.

The second issue concerns the level at which strategy is determined. In the theoretical description of this element of the corporate planning process this was described as being essentially a headquarters process. Yet the subsidiary companies of the BRB, the groups and companies of the NFC, the companies of the NBC and the smaller groups of BA, have been in the lead in the development of strategy, albeit with the ultimate authority resting at headquarters level.

This has been the result of

a) Placing headquarters emphasis on the main activities i.e. in respect of the Railways business of the BRB and the Airlines Group of BA, the smaller activities being regarded as of lesser importance.
b) A conscious decision in NFC and NBC that the companies/groups are best able to attend to this task given broad guidelines and, in the case of NBC, 'target' objectives.
c) An assumption that what exists will probably always exist and, to a large extent, merely needs improvement/rationalisation/development.

The author would not wish to decry these approaches but it needs to be stated that they can militate against an organisation taking radical decisions, such as divestment of a company. On balance, therefore, it is the author's view that the theoretical situation is sound and does not need to be changed for this issue.

The fifth hypothesis was that 'Each organisation is likely to

be committed to computerisation of much of the corporate planning process/procedures to provide more thinking time and evaluation of alternatives.'

It was found that this hypothesis was not correct in that neither NFC nor NBC are in any was committed to the development of computer models for corporate planning purposes.

The sixth hypothesis was that 'There may be in each case a lack of attention paid to the development of non-financial objectives.'

This hypothesis was found to be generally correct. As noted earlier, in respect of NFC and NBC, there has been no attempt to develop non-financial objectives. This situation has also applied in respect of the BRB although, as stated in Chapter 6, the Government set a single non-financial objective, in the Railways Act 1974, in respect of maintaining passenger services at the level which existed in 1974. In respect of BA, however, some effort has been put into the development of non-financial objectives and further progress is intended.

# CHAPTER 16

# ASSESSMENT OF THE SUCCESS OF CORPORATE PLANNING IN THE BRITISH RAILWAYS BOARD

The author has given considerable thought to the question of how to assess the success of corporate planning, in any organisation, in order that this task can be tackled in respect of the British Railways Board. Reference was first made to the literature and it was found that it consists, basically, of two types.

The first type is a description of how particular organisations are tackling the production of their corporate plans and are dealing with the theoretical elements of the process and procedures discussed in Chapters 3 and 4, respectively. Articles of this kind have tended, generally, to be descriptions of what happens or is about to happen and give little or no insight into the success with which corporate planning has been undertaken. The implicit assumption in such articles is often that 'this is what we do and we like it.'

The second type, which seems to the author to be more useful in this context, are the sample surveys of attitudes to the corporate planning activities in a number of organisations. Details of such surveys were given in Chapter 3, where it will be observed that evidence has been accumulated which suggests that (a) organisations undertaking corporate planning do better than those which do not; (b) corporate planning has produced improvements in awareness of problems, strengths and weaknesses,

profits and growth and other listed benefits; (c) corporate planning has been undertaken with varying but generally favourable degrees of perceived success and produced varying but, again generally favourable, degrees of perceived benefit.

However, the author is bound to conclude that there would be little gained by attempting to measure the success of corporate planning in the British Railways Board merely by simulating these surveys or even adding the four organisations covered in this research to the samples. Such a course of action would not add much to knowledge in this area. For example, using the Higgins and Finn survey approach, it transpired that the BRB, NFC, NBC and BA senior planning executives consulted, perceived their corporate planning activities to have been of 'benefit' and of 'limited success'. None was able to describe them as having been of 'great benefit', or as a 'great success' or even 'success'. Additionally, by way of a further example, the senior planning executives consulted provided answers to the questions originally posed by Shawki and Grinyer as given in Table 16.1.

The posing of these questions caused difficulties in that the planners consulted considered that most of the responses were only marginally correct. Only in a few instances (particularly questions 1 and 6) were unqualified responses received. The remainder were provided as 'on-balance' replies.

| | BRB | NFC | NBC | BA |
|---|---|---|---|---|
| Perceived improvements in - | | | | |
| 1. Awareness of problems, strengths and weaknesses. | Yes | Yes | Yes | Yes |
| 2. Profit and Growth. | Yes | Yes | No | Yes |
| 3. Information and communication. | Yes | No | Yes | Yes |
| 4. Systematic resource allocation. | Yes | Yes | No | Yes |
| 5. Coordination and control. | Yes | Yes | Yes | Yes |
| 6. Morale and industrial relations. | No | No | No | No |
| 7. Quantification | Yes | No | Yes | Yes |

Table 16.1. Perceived Improvements Resulting from Corporate Planning (based on Shawki and Grinyer)

(Source : Discussions with BRB, NFC, NBC and BA Senior Planning Executives)

The author formed the view that a more detailed analysis would be required to assess the success of corporate planning within the BRB, involving the establishment of criteria of acceptability from first principles, incorporating as much objectivity as possible. These considerations have produced four criteria of acceptability which are expressed, in question form, as follows:-

1) What theroetical deficiencies have arisen from the theory versus practice analysis, in respect of the BRB process of corporate planning, discussed in Chapters 10 and 15, and what are the views of BRB planning executives and the author on these deficiencies?
2) What theoretical deficiencies have arisen from the theory versus practice analysis, in respect of the BRB corporate

planning procedures, provided in Chapters 10 and 15, and what are the views of BRB planning executives and the author on these deficiencies?

3) Have the recent Railways business results, in financial and non-financial terms, been consistent with the forecasts contained in recent Rail plans/reviews?

4) In the opinion of BRB planning executives and the author, has the BRB corporate planning process and procedures provided 'spin-off' benefits which would not otherwise have been available?

Dealing with the third criterion occupies the greatest part of this chapter. The author has taken the view that achievement or non-achievement by the BRB of its own forecasts is a realistic and objective success assessment process. In line with the data provided in Chapter 11 and for the reasons explained in that chapter, attention will be paid to the Railways business forecasts/results rather than to the overall BRB situation or the smaller subsidiary businesses. Where significant differences have arisen between the forecasts and actual results details will be provided of the relevant circumstances and, as considered appropriate, the views of BRB planners and the author.

The first and second criteria arise from the matters discussed in Chapters 10 and 15. Whilst this is essentially a theoretical analysis of success, the views of the planners consulted and of the author are provided.

As will be clear from the information provided, the fourth criterion is considered to be an essential adjunct to the theory versus practice analysis. Again, this issue is tackled from a largely theoretical view, as far as possible. However, in this area also, the views of BRB planners and the author are expressed.

Before considering the performance of the British Railways Board (or, more particularly, the Railways business) in respect of these criteria, it must be added that, since the organisation has only been undertaking formal corporate planning procedures for about eleven years, it would be unfair to expect perfection, or anything approaching it. It has been made clear that corporate planning is an extremely difficult process to introduce quickly, particularly in a large and complex organisation and more so in a difficult economic climate. Nevertheless, it would not be unreasonable to expect considerable progress.

It should also be noted that, whilst this chapter contains a series of 'findings' and discussions thereon, in respect of each of the four criteria noted above, the author's conclusions concerning the success of corporate planning in the BRB will be delayed until Chapter 17. This will lead to a number of recommendations which will also be contained within that chapter.

It is convenient to tackle the tasks outlined in the order of the four criteria of acceptability provided.

## 16.1. BRB Corporate Planning Process - Theoretical Deficiencies

In Chapter 10, a comparison was made between the theoretical nature of the process of corporate planning and its application in the BRB. That information was summarised and discussed further in Chapter 15, where comparisons were also made with the approaches adopted by NFC, NBC and BA. A number of significant differences between theory and practice were noted and it is now proposed to briefly list these and set alongside them the deficiencies which would, theoretically, be expected to arise.

| Differences Between Theory and Practice | Theoretical Deficiencies Resulting Therefrom |
|---|---|
| 1. Lack of development of jointly agreed values between BRB and Government | Inadequate development and agreement of mutual needs |
| 2. Insufficient development of jointly agreed long term financial and non-financial objectives between BRB and Government | Inadequate development and agreement of purpose |
| 3. Lack of development of intermediate goals between BRB and Government | Inadequate development and agreement of purpose |
| 4. Lack of development of strategy in the plans produced in the years 1975 to 1979 | Inadequate directional content of plans |

| | |
|---|---|
| 5. Absence of contingency plans | Inadequate allowance made for unexpected events |
| 6. Absence of action plans | Inadequate communication with the management levels required to implement the plans |
| 7. Lack of systematic checking of progress in implementing plans | Inadequate knowledge of progress in implementing plans and of failings to be overcome in future plans. |

Each of these differences and the deficiencies they would theoretically produce have been discussed with BRB planners and it is now intended to reproduce their views together with those of the author, as judged to be appropriate.

Items 1 and 2 Both the differences between theory and practice and the resulting theoretical deficiencies were accepted by the BRB, with the discussions revolving around the 'fundamental dilemma' discussed in Chapter 15. The BRB planners agreed that the financial objectives set by Government were inadequate for planning purposes in that:-

a) The overall break-even (after grants) objective was regarded by the BRB as being superseded by the cash limits.

b) The EFL cash limits were only set for one year ahead (i.e. the budget year which is the base year of the plans) and no firm or clear idea could be obtained for their future levels.

c) Whilst the PSO cash limits were also forecast four years ahead, they could also not be regarded as firm and were quite likely to change, as indeed they had in recent years.

d) Whilst investment ceilings were forecast by Government for four years ahead, they could not be regarded as firm and,

in any case, were judged to be insufficient.

The BRB planners explained that they had grown used to this unsatisfactory state of affairs and had developed a reaction of making their own assumptions in the corporate and Railways business plans to cover the absence of agreed objectives. These assumptions have variously included a rising investment ceiling profile, a flat PSO cash limit (in real terms), and more recently (the 1980 Rail Plan) rising PSO and EFL cash limits. The purposes of doing this have been to create long term objectives on which to base the plans and also to assist in persuading Government about the investment and external financing levels that have been considered to be required.

They agreed that this has placed the corporate and Railways business plans on a precarious footing, as will be demonstrated later in this chapter when the individual Rail Plans are discussed further. They are pessimistic about the prospects of being able to improve the situation because of the short term time horizons adopted by Government. Nevertheless, they accept the author's view that corporate planning in the BRB is bound to continue to suffer considerably unless this problem is resolved.

In regard to non-financial objectives, the BRB planners agreed that it would be of benefit to create objectives in connection with market share and manpower productivity since these items are considered to be of fundamental importance. They accepted that the absence of such objectives in the past has produced a

theoretical deficiency but added that the absence of adequate and mutually agreed financial objectives has been of considerably more importance because of the poor financial results of the Railways business (see Chapter 6).

However, they agreed with the author that it is appropriate to attempt to develop non-financial objectives, in conjunction with Government, at the same time as future financial objectives are discussed.

Item 3 The BRB planners agreed in principle with the theoretical deficiency which is noted above and agreed that intermediate goals would be useful in the future. However, they considered that the issue had largely been rendered irrelevant by the inadequacy of the objectives. The author was bound to agree that it would be essential to establish improved long term objectives before this element of the process could be introduced.

Item 4 This theoretical deficiency was fully accepted and it was agreed that, consequently, the Railways business plans produced in 1975, 1978 and 1979 were not adequate plans in terms of their strategic direction, forecasts or the desire of the management to see them implemented. For this reason, they were described as Rail Reviews. It is useful to note that this problem arose from lack of full Government commitment to the investment requirements contained within the 1974 Rail Plan (Interim Rail Strategy) despite an apparent acceptance of the underlying strategy. Further details are given in

Chapter 11 and later in this chapter.

Item 5 This theoretical deficiency was accepted and it was further agreed that, in the light of the experience of previous Rail Plans (discussed later in this chapter), the preparation of contingency plans in future years should receive urgent consideration.

Item 6 It was observed by the BRB planners that, in order to establish an interface between the Rail Plans and the budgets, some form of communication of the forecasts for year 1 between BRB headquarters and the Regions would be necessary. Experience has shown that the 'budget objectives' process has not worked (see Chapters 10 and 15 for details) and it has been recognised that it is essential to produce action plans (in conjunction with Regional management) at least for one year ahead, to ensure that there is fuller knowledge of, and commitment to, Rail Plan intentions at Regional level. Discussions with the author during the course of this research have helped persuade BRB planners to arrive at this decision which the BRB intend to implement in 1982.

Item 7 The BRB planners have considered in the past that as long as the plans are updated annually, there has been little need to produce a back check report on each of the plans to establish what lessons can be learned before the next plan is prepared. However, recent experience in respect of the 1980 Rail Plan has forced them to take a different view in that a 'post mortem' has been requested by the board to explain why

the 1982 expectations as seen in the draft 1981 Rail Plan are so much different to those contained in the 1980 Rail Plan. Further information in respect of the draft 1981 Rail Plan is provided later in this chapter.

Additionally, the BRB planners have accepted that, in order to successfully compare plan forecasts with actual results, it is useful to produce the forecasts in estimated actual prices, i.e. allowing for forecast inflation. The author shares the view held by BRB planners that the plans are more understandable when expressed in constant prices, but they now agree that it is necessary to recommence the procedure, dropped in 1979, whereby the constant price level forecasts are also converted into estimated actual prices.

## 16.2. BRB Corporate Planning Procedures - Theoretical Deficiencies

As in respect of the process of corporate planning, a comparison was made in Chapter 10 between the corporate planning procedures of the BRB and the theories related thereto. That information was summarised in Chapter 15, where comparisons were also made with the approaches adopted by NFC, NBC and BA.

The only item which the author considers should be noted in this context is that, in respect of investment appraisal, the BRB have been using an arbitrary discount rate instead of attempting to assess their cost of capital. The view of the BRB planners in this respect was that the 7% real discount rate which has been applied to all 'developmental' projects might be well beyond the cost of capital but this has been of

little consequence when the annual investment ceilings have been so far below required investment levels. The author accepts this view and considers that there are no significant problems created by operation of the BRB procedures in the circumstances outlined.

## 16.3. Railways Business Results Compared with Forecasts Contained in Recent Rail Plans/Reviews

Apart from the theoretical issues which have been discussed in this chapter, it was considered by the author to be particularly important in the success assessment to compare the Railways business results with the forecasts included in recent Rail Plans/Reviews. The object of this was to discover whether there have been any differences which were so significant as to confirm a theoretical failure or identify a practical failure of the BRB corporate planning process or procedures.

The findings of this part of the research are given in some detail in this section, with reasons given for the major differences which were found to exist. Each Rail Plan/Review prepared since 1974 will be considered separately to establish financial and physical differences. In order that the financial differences can be established without undue difficulty, reference will be made to the BRB forecasts expressed in estimated actual prices, rather than the constant price forecasts which were given in Appendices 2(a) and 2(b). This will be achieved through the use of the forecasts given in Appendices 3(a) and 3(b) which represent the same forecasts but in estimated (by the BRB or, in respect of the 1974 Rail

Plan, the 1979 Rail Review and 1980 Rail Plan, the author using BRB indices) future prices.

16.3.1. 1974 Rail Plan Forecasts Compared with Actual Results 1976 to 1980 and Latest Forecast 1981

The financial and non-financial results of the Railways business from 1976 to 1980 and the latest expectations for 1981 (as seen in May 1981) were all considerably different to the forecasts, in estimated actual prices, contained within the 1974 Rail Plan. In terms of the PSO Grant and the Non-passenger profit and loss forecasts/results, the situation was as described in Table 16.2. This table also contains the forecasts/results for 1974, since the forecast (budget) for that year was used as the Plan base.

The figures given in Table 16.2. show that:-

a) The actual PSO grant and Passenger profit and loss figures combined (i.e. the loss before grants attributable to the Passenger business) were much larger than the Rail Plan forecasts.

b) The actual Non-passenger profit/loss was much worse than forecast. Additionally, it had not been predicted that Government grants would be needed in 1975 to 1977 to eliminate the losses in those years.

Combining the Passenger and Non-passenger figures produces

| | Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981* |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Passenger | | | | | | | | |
| 1974 Rail Plan | | | | | | | | |
| PSO Grant | 203 | ø | 342 | 396 | 468 | 472 | 522 | 591 |
| Actual PSO Grant | - | 324 | 319 | 364 | 434 | 523 | 634 | 740 |
| Actual Profit/ (Loss) | | 4 | 3 | 22 | (7) | 1 | (32) | (47) |
| Non-Passenger Profit/(Loss) | | | | | | | | |
| 1974 Rail Plan | 3 | ø | - | 10 | 11 | 32 | 52 | 63 |
| Actual | | - | - | - | - | (2) | (48) | (57) |
| Actual Non-Passenger Grant | | 66 | 35 | (3) | | | | |
| 1974 Actual Profit/ (Loss) | (316) | | | | | | | |

* Latest Estimate - May 1981

ø Forecasts not produced for 1975

Table 16.2. 1974 Rail Plan Forecasts Compared with Actual Results 1974 to 1980 and Latest Forecast 1981 - Financial Summary

(Source : BRB internal records)

variances from the Rail Plan forecasts as shown in Table 16.3.

| | | £m |
|---|---|---|
| Variance from Plan Forecast | | |
| Year 1974 | W | 116 |
| 1976 | W | 9 |
| 1977 | B | 47 |
| 1978 | B | 16 |
| 1979 | W | 84 |
| 1980 | W | 244 |
| 1981 | W | 316* |

* Latest Estimate - May 1981

B = Better W = Worse than Plan forecast

Table 16.3. Variances Between Actual Results 1974 to 1980 (and Latest Forecast 1981) and Rail Plan Forecasts 1974 to 1981 - Financial Summary

(Source : BRB internal records)

These figures are analysed further in Appendix 4(a) - page 1 which splits them between price variances (inflation and real price increases combined) and volume variances, as a structure for further analysis. The figures in Appendix 4(a) have been arrived at by comparing the price/volume variances in the 1974 Rail Plan in estimated actual price levels, i.e. the variances given in Appendix 3(a) with the actual variances recorded in Appendix 1(a), allowing for the difference between the base year forecast and the actual result.

From this added information, it can be seen that, by 1981, the net price variance (W £165m) was almost matched by the volume variance (W £151m) and that both recorded a pattern of

improvement in the years 1976 and 1977. It is now proposed to examine the trend of these figures, drawing upon data contained in some of the other Appendices.

Looking first at the price variances, it can be seen that the increases in the receipts variances reached very high levels (B £518m) by 1981. The fundamental cause of this was incorrect estimation of the rate of inflation. This is clear from a comparison of the RPI forecast used by the BRB, shown in Appendix 2(d) with the actual change in the RPI recorded in Appendix 1(d). Adjusting the original Rail Plan figures in Appendix 3(a) - page 1, by the difference in the rate of inflation (and using for 1981 an inflation rate of 11.8% over 1980, as used by the BRB in preparing the 'latest' estimate) produces the value of this element as follows:-

| | | £m |
|---|---|---|
| 1976 | B | 168 |
| 1977 | B | 261 |
| 1978 | B | 286 |
| 1979 | B | 388 |
| 1980 | B | 587 |
| 1981 | B | 717 |

(B = Better, W = Worse than plan forecast)

These figures were, in fact, higher than the total price variances from 1977 onwards. This meant that the real price increases in receipts contained within the 1974 Rail Plan (recorded in Appendix 2(a) in 1974 price levels) were not achieved. The values of this element, in the actual price levels for each year, were as given below:-

| | Passenger | Freight | Parcels | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| 1976 | W 20 | B 9 | B 5 | W 6 |
| 1977 | W 54 | B 1 | B 5 | W 48 |
| 1978 | W 43 | B 6 | B 7 | W 30 |
| 1979 | W 88 | W 5 | B 1 | W 92 |
| 1980 | W 123 | W 18 | W 5 | W 146 |
| 1981 | W 143 | W 44 | W 12 | W 199 |

(B = Better, W = Worse than Plan forecast)

It can be seen that the largest differences have occurred in respect of Passenger receipts but also Freight receipts in 1980 and 1981. In effect, this has meant that the real price increases incorporated in the 1974 Rail Plan (see Appendix 2(a) - page 3 for details in 1974 price levels) have not been achieved. However, it will be recalled from the information given in Section 11.1.2. of Chapter 11 that real pricing was a significant feature of the strategy contained within the 1974 Rail Plan. It is considered by BRB planners that much of the non-achievement of these real price increases (particularly Passenger) has been related to non-implementation of planned capital investment and thus non-achievement of train service improvements. This issue will also be considered shortly in respect of its impact on planned receipts volume growth. However, irrespective of the extent to which the lack of achievement of forecast growth in passenger miles and freight tonnes has been related to investment problems, the lower volumes themselves have impacted heavily upon the ability of the BRB to achieve the expected levels of real price increases.

For example, the 1980 level of passenger miles and freight net tonne miles was expected to be 24,400 million and 208 million, respectively. The respective results turned out to be 19,700 million and 153 million, giving a much lower volume on which to obtain real price increases.

In respect of working expenses, the variances reached an even larger total of W £683m by 1981. Again, incorrect estimation of the rate of inflation was the primary cause. By making similar calculations, the values of this element are assessed as follows:-

| | | £m |
|---|---|---|
| 1976 | W | 234 |
| 1977 | W | 365 |
| 1978 | W | 406 |
| 1979 | W | 525 |
| 1980 | W | 784 |
| 1981 | W | 961 |

(B = Better, W = Worse than Plan forecast)

It is evident from the above that the forecast real price increases in working expenses (recorded in Appendix 2(a) - page 3 in 1974 price levels) were not incurred. The value of this element, in the actual price levels for each year, was as follows:-

| | | £m |
|---|---|---|
| 1976 | B | 23 |
| 1977 | B | 146 |
| 1978 | B | 158 |
| 1979 | B | 190 |
| 1980 | B | 241 |
| 1981 | B | 278 |

(B = Better, W = Worse than Plan forecast)

The fundamental causes of this feature were the low pay awards in 1976 and 1977, which were constrained by National pay policy (see Chapter 6) and a general pattern of pay awards with a lower real element than provided for in the Plan forecasts.

Turning now to the volume variances, it can be seen, in Appendix 4(a) - page 1, that the increases in receipts variances reached a total of W £347m by 1981. It is not possible to identify and measure all of the reasons for this since the BRB did not produce sufficient data on causes of change (Rail Plan or actual results). However, some reasons can be gleaned from the material collected in the Appendices and in Chapter 11.

In particular, it seems reasonable to assume that the volume variances in Passenger receipts were, to some extent, connected with large differences between the forecast and actual levels of U.K. Consumers' Expenditure (see Appendices 1(d) and 2(d)). Using the year 1980 as an example, the Consumers' Expenditure index was forecast at 117.1 when the actual index turned out to be 110.5. Converting this into a

financial variance produces W £46m compared with the total of W £69m recorded in Appendix 4(a). Further, in respect of the latest (May 1981) forecast for the year 1981, the BRB assumed that the Consumers' Expenditure Index would be 112.4 compared with a Plan forecast of 120.0 Again converting this into a financial variance produces W £62m compared with the total of W £128m - recorded in Appendix 4(a). This evidence suggests that as much as half of the Passenger receipts volume variances have been caused by over-estimation of growth in general economic activity, as measured by the Consumers' Expenditure Index.

From an examination of the Plan forecasts, however, it is clear that a further large part of the shortfall has stemmed from non-achievement of investment-linked growth particularly in the Inter-city Sector. This is evident from a comparison of the forecast and actual trends of passenger miles and APT, HST and electric multiple unit resources, given in Appendices 1(c) and 2(c). The profile of capital investment recorded in Appendix 1(b) remained fairly flat in real terms in all years up to 1981. This was contrary to the expectations contained within the strategy (see Section 11.1.2. of Chapter 11) and the forecasts recorded in Appendix 2(b). The lower investment levels were related to Government investment ceilings not being increased as expected. This undermined completely one of the main elements of the then Passenger business strategy.

It also seems reasonable to assume that the volume variances

in Freight and Parcels receipts were to a large extent connected with the difference between the forecast and actual levels of U.K. Industrial Production. Again, using the year 1980 as an example, this index was forecast at 123.5 (including oil) when it turned out to be 99.8 (including oil). Converting these indices to financial figures produces variances which would almost exhaust the Freight and Parcels variances recorded in Appendix 4(a). Thus, the main problem in connection with Freight and Parcels receipts seems to have been incorrect forecasting of the general volume of available business in Great Britain and, more particularly the downturns experienced in 1975 and 1980. A further downturn has recently been allowed for in the latest (May 1981) forecast for 1981, amounting to 2.5%, compared with 1980. This figure was based on the Industrial Production index 'excluding oil' and, whilst it cannot be accurately compared with the 'including oil' Rail Plan forecast increase of 3.3%, which can be calculated from the figures given in Appendix 2(d), it serves to indicate the extent to which the over-estimation of economic growth has continued to be the main cause of Plan/actual volume variances.

In respect of working expenses, it is again not possible to provide an accurate analysis of the variances but it is clear that the main cause has been a massive underspending on revenue investment, brought about by Government investment ceilings being considerably lower than the level assumed in the Plan. The impact of this can be assessed by re-calculating the forecast revenue investment expenditure levels contained within Appendix 2(b) (using actual RPI and the 'latest

forecast' for 1981) and comparing these figures with the actual level of expenditure. This produces variances on the planned expenditure as follows:-

| | | £m | |
|---|---|---|---|
| 1976 | B | 69 | |
| 1977 | B | 80 | |
| 1978 | B | 118 | |
| 1979 | B | 132 | |
| 1980 | B | 148 ) | allowing for partial |
| 1981 | B | 173 ) | switch to maintenance |

(B = Better, W = Worse than Plan forecast)

Deducting these variances from the volume variances in Appendix 4(a) leaves unexplained balances as given below:-

| | | £m |
|---|---|---|
| 1976 | B | 52 |
| 1977 | B | 69 |
| 1978 | B | 4 |
| 1979 | W | 39 |
| 1980 | W | 44 |
| 1981 | W | 23 |

(B = Better, W = Worse than Plan forecast)

Examination of detailed records and discussions with the BRB planners concerned, reveal that these balances were the result of a combination of features, but particularly varying levels of maintenance and lower depreciation and interest charges related largely to reduced capital investment. Unlike in some of the subsequent plans, non-achievement of forecast manpower reductions was not a significant problem (see Appendices 1(c) and 2(c). This was due to almost total

non-achievement of the forecast increases in staff due to improvements in conditions of service offsetting extensive non-achievement of forecast reductions expected to result from investment and economy measures.

### 16.3.2. 1975 Rail Review Forecasts Compared with Actual Results 1976 to 1980 and Latest Forecast 1981

The financial and physical results of the Railways business from 1976 to 1980 and the latest (May 1981) expectations for 1981 were considerably different to the forecasts, in estimated actual prices, contained within the 1975 Rail Review. In terms of the PSO Grant and the Non-passenger profit and loss position, the situation was as described in Table 16.4. The differences between the forecasts and the actual results were not as marked as they were in respect of the 1974 Rail Plan. Nevertheless, in regard to Non-passenger business, they were particularly large in 1980 and 1981.

| | Base 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981* |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Passenger | | | | | | | |
| 1975 Rail Review | | | | | | | |
| PSO Grant | 343 | 409 | 489 | 574 | 643 | 731 | 811 |
| Actual PSO Grant | 324 | 319 | 364 | 434 | 523 | 634 | 740 |
| Actual Profit/ (Loss) | 4 | 3 | 22 | (7) | 1 | (32) | (47) |
| Non-Passenger | | | | | | | |
| Profit/(Loss) | | | | | | | |
| 1975 Rail Review | (68) | (44) | (43) | (2) | 14 | 46 | 102 |
| Actual | - | - | - | - | (2) | (48) | (57) |
| Actual Non-Passenger Grant | 66 | 35 | (3) | | | | |

* Latest Estimate - May 1981

Table 16.4. 1975 Rail Review Forecasts Compared with Actual Results 1975 to 1980 and Latest Forecast 1981 - Financial Summary

(Source : BRB internal records)

Combining the Passenger and Non-passenger figures produces variances from the Rail Review forecasts as shown in Table 16.5.

| | | £m |
|---|---|---|
| Variance from Review | | |
| Year 1975 | B | 25 |
| 1976 | B | 102 |
| 1977 | B | 193 |
| 1978 | B | 135 |
| 1979 | B | 105 |
| 1980 | W | 29 |
| 1981 | W | 135* |

* Latest estimate - May 1981

(B = Better, W = Worse than Review Forecast)

Table 16.5. Variances Between Actual Results 1975 to 1980 (and Latest Estimate 1981) and 1975 Rail Review Forecasts 1975 to 1981 - Financial Summary

(Source : BRB internal records)

These variances are analysed between price and volume factors in Appendix 4(a) - page 1, where it can be seen that, by 1981, the price variance was B £54m. However, this did not match the volume variance of W £189m. Both showed betterments (i.e. better than forecast) in 1976 and 1977 and it was not until 1980 that the adverse volume variance grew to a level which was greater than the positive price variance.

It is now proposed to examine these variances further in similar fashion to the 1974 Rail Plan analysis. Looking first at the price variances, it can be seen that there were adverse variances in total receipts in all of the years. In order to determine the impact of inflation, it was again necessary to

adjust the Rail Plan figures recorded in Appendix 3(a) - page 1 for the difference in the rate of inflation using the forecast indices given in Appendix 2(d) and the actual indices in Appendix 1(d) and using for 1981 the inflation rate of 11.8% over 1980, as used by the BRB in producing the latest (May 1981) estimate. This produces the value of the inflation difference as follows:-

| | | £m |
|---|---|---|
| 1976 | W | 4 |
| 1977 | B | 18 |
| 1978 | W | 24 |
| 1979 | B | 7 |
| 1980 | B | 143 |
| 1981 | B | 198 |

(B = Better, W = Worse than Review forecast)

Deducting these figures from the total receipts price variances in Appendix 4(a), produces an assessment of the real price differences in the price levels of each year. These figures are given below:-

| | Passenger | Freight | Parcels | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| 1976 | W 25 | W 3 | B 1 | W 27 |
| 1977 | W 70 | W 16 | B 2 | W 84 |
| 1978 | W 57 | W 20 | B 5 | W 72 |
| 1979 | W 91 | W 40 | - | W 131 |
| 1980 | W 117 | W 69 | W 5 | W 191 |
| 1981 | W 120 | W 101 | W 11 | W 232 |

(B = Better, W = Worse than Review forecast)

It can be seen that the adverse variances on forecast real price increases have been very large and have occurred mainly in respect of the Passenger and Freight business receipts forecasts.

The Passenger variances were similar to those in respect of the 1974 Rail Plan, reflecting non-achievement of even larger real price increases, included in the 1975 forecast. As in respect of the 1974 Plan, these adverse variances were brought about by lower volumes of carryings. For example, the Passenger miles forecast for 1980 was 20,400 million but the actual turned out to be 19,700 million. These lower carryings have been related by the BRB planners concerned largely to non-achievement of the planned increases in capital investment as a result of Government investment ceilings. However, in respect of this 1975 Review, the most significant cause of the Passenger real pricing variance was non-achievement of an optimistically high level of real price increases included in the Review. It can be seen in Appendix 2(a) - page 3 that much higher real price increases were forecast compared with the 1974 Plan, which accounted in part for the lower forecast levels of passenger miles (i.e. related to assessed resistance to these increases).

The adverse Freight variances were larger than those in respect of the 1974 Plan, also reflecting higher real price aspirations in the 1975 Review (see Appendix 2(a) - page 3) and a wider margin between forecast and actual carryings. The differences in carryings were very large e.g. the forecast

for 1980 was 214 million tonnes but the actual was only 153 million, this difference representing (as agreed by the BRB planners concerned) the largest part of the adverse variances under the real pricing heading.

In respect of working expenses, the effect of incorrect estimation of the impact of inflation (assessed by making similar calculations) was as follows:-

| | | £m |
|---|---|---|
| 1976 | B | 6 |
| 1977 | W | 29 |
| 1978 | B | 34 |
| 1979 | W | 10 |
| 1980 | W | 195 |
| 1981 | W | 265 |

(B = Better, W = Worse than Review forecast)

By deducting these variances from the total working expenses price variances recorded in Appendix 4(a), it is possible to assess the differences between the forecast and actual levels of real price increases. This assessment appears below:-

| | | £m |
|---|---|---|
| 1976 | B | 97 |
| 1977 | B | 227 |
| 1978 | B | 211 |
| 1979 | B | 265 |
| 1980 | B | 334 |
| 1981 | B | 353 |

(B = Better, W = Worse than Review forecast)

Similarly to the outcome of 1974 Rail Plan forecasts, these variances reflected the low pay awards in 1976 and 1977 (National pay policy) and a continued tendency to overestimate the extent of real pay increases in the Rail Plan/Review forecasts.

Turning now to the volume variances, it can be seen in Appendix 4(a), that the receipts variance reached W £109m by 1979 and W £334m in 1981. Again, for the reasons quoted earlier, it is not possible to identify and measure all of the reasons for this but some reasons can be deduced from the data collected in the Appendices and in Chapter 11.

In respect of Passenger receipts, it would appear that the volume variances, which were adverse in all years (W £115m by 1981), were not generally caused by overestimating growth in UK Consumers' Expenditure. Using the years 1979 and 1980 as examples, the Consumers' Expenditure index (Appendix 2(d)) was forecast at 108.6 and 110.6, respectively when the actual index (Appendix 1 (d)) turned out a little higher at 110.6 and 111.3. However, in 1981 itself, it was a material factor in that the Review forecast of 113.3 was much higher than the BRB estimate of 109.6 used in preparing the latest (May 1981) receipts forecast for that year. The approximate impact on the Passenger receipts in 1981 was W £39m or about one-third of the total variance.

Instead, this volume variance has seemingly been brought about by lower investment and by non-achievement of an inconsistently

large (and possibly very optimistic) forecast increase in the volume of receipts (see Appendix 2(a) - page 3) which, unlike in the 1974 Plan, was not accompanied by such a large forecast increase in Passenger miles (partly due to forecast resistance to the larger real price increases).

The impact of the capital investment reductions can be seen by comparing the forecasts for HST and APT sets and electric multiple units given in Appendix 2(c) with the actual numbers recorded in Appendix 1(c). For example, electric multiple units were planned to increase by over 1,200 vehicles by 1981 but the actual increase turned out to be only 114 vehicles. It will be recalled that the higher investment profiles were a major part of the Passenger strategy contained within the 1975 Rail Review.

Turning to Freight and Parcels receipts, the adverse variances (£131m by 1981) cannot seemingly be explained by inaccurate forecasts of increases in UK Industrial Production, except in respect of 1980 and 1981. The large drop in Industrial Production in 1980 recorded in Appendix 1(d) was not predicted and was clearly a substantial cause of the Freight and Parcels receipts volume variances. A similar situation obtained in 1981 as noted in the previous section. However, it should be noted that the Freight results in 1980 were distorted by the BSC strike which reduced the receipts for that year by £28m.

The adverse Freight variances in the years 1976 to 1979 and, to a proportionately lesser extent in 1980 and 1981, were

largely connected with the shortfall experienced in the base year - 1975 (see Section 6.2.3. of Chapter 6). That amounted to W £32m which became a higher figure each year because of inflation. This variance is not evident from comparing the Industrial Production Indices in Appendices 1 (d) and 2 (d) because the former started off with the actual for 1975 and the latter with the BRB forecast for that year. In fact, the BRB forecast turned out to be higher than the actual index, the extent of the recession not being adequately forecast, accounting for the receipts shortfall of £32m. This 'base year' problem has not been of any major significance in respect of the receipts forecasts contained within any of the other Plans/Reviews discussed in this chapter.

The same situation applied in respect of the volume of parcels receipts where an adverse variance of £5m, related to the recession, was recorded in the base year. However, the major shortfalls which followed were greater than the impact of this shortfall. This has been explained by BRB planners as being related to over-optimistic forecasting of growth, particularly in the S to S sector, withdrawal from the C and D sector (1981) and the recession in 1980 and 1981.

Moving to working expenses, it is again clear that one of the main causes of the betterments recorded in Appendix 4(a) which amounted to £145m by 1981, was a massive underspending on revenue investment, as a consequence of Government cuts to the BRB forecast of that expenditure. The impact of this can be assessed by re-calculating the forecast revenue investment

expenditure levels using actual inflation (RPI) indices (and the 'latest' BRB forecast for 1981) and comparing these figures with the actual expenditure. This produces variances on the planned expenditure as follows:-

| | | £m | |
|---|---|---|---|
| 1976 | B | 13 | |
| 1977 | B | 14 | |
| 1978 | B | 15 | |
| 1979 | B | 35 | |
| 1980 | B | 53 | ) allowing for partial |
| 1981 | B | 85 | ) switch to |
| | | | ) maintenance |

(B = Better, W = Worse than Review forecast)

Deducting these amounts from the volume variances recorded in Appendix 4(a) leaves unexplained balances as follows:-

| | | £m |
|---|---|---|
| 1976 | B | 90 |
| 1977 | B | 132 |
| 1978 | B | 67 |
| 1979 | B | 48 |
| 1980 | B | 41 |
| 1981 | B | 60 |

(B = Better, W = Worse than Review forecast)

Examination of detailed records and discussions with the BRB planners concerned reveal that these balances were the result of a number of features including lower maintenance and lower depreciation and interest charges (related partly to cut-backs in capital investment). They also included betterments caused by over-achievement of manpower reductions

(see Appendices 2(c) and 1(c)). However, these were caused by almost total non-achievement of the forecast (13,360) increases in staff relating to expected improvements in conditions of service.

16.3.3. 1978 Rail Review Forecasts Compared with Actual Results 1978 to 1980 and Latest Forecast 1981

The financial and physical results of the Railways business from 1978 to 1980 and the latest (May 1981) expectation for 1981 were also considerably different to the forecasts contained within the 1978 Rail Review, in estimated actual price levels. In terms of the PSO Grant and the Non-Passenger profit and loss situation, the position was as described in Table 16.5. Again, it can be seen that the actual results were considerably worse than the forecasts. Indeed, allowing for the impact of inflation, they were also considerably worse than the 'worst' estimates contained within the risk analysis, described in Chapter 11, particularly in respect of both Passenger and Freight receipts.

| | Year | | | |
|---|---|---|---|---|
| | 1978 | 1979 | 1980 | 1981* |
| | £m | £m | £m | £m |
| Passenger | | | | |
| 1978 Rail Review - PSO Grant | 443 | 505 | 540 | 605 |
| Actual PSO Grant | 434 | 523 | 634 | 740 |
| Actual Profit/(Loss) | (7) | 1 | (32) | (47) |
| Non-Passenger Profit/(Loss) | | | | |
| 1978 Rail Review | 7 | 45 | 81 | 114 |
| Actual | - | (2) | (48) | (57) |

* Latest Estimate - May 1981

Table 16.5. 1978 Rail Review Forecasts Compared with Actual Results 1978 to 1980 and Latest Forecast 1981 - Financial Summary

(Source : BRB internal records)

Combining the Passenger and Non-Passenger figures produces variances from the Rail Review forecasts as shown in Table 16.6.

| Variance from Review | £m |
|---|---|
| Year 1978 | W 5 |
| 1979 | W 64 |
| 1980 | W 255 |
| 1981 | W 353* |

* Latest Estimate - May 1981

B = Better, W = Worse than Review forecast

Table 16.6. Variances between Actual Results 1978 to 1980 (and Latest Estimate 1981) & 1978 Rail Review Forecasts 1978 to 1981

These variances are analysed between price and volume factors in Appendix 4(a) - page 2. It can be seen that the price and volume variances became W £110m and W £243m, respectively, by 1981, with the largest changes occurring in 1980 and 1981. It is now possible to examine these variances further in similar fashion to the 1974 Plan and 1975 Review.

Looking first at the price variances, it will be observed that there was an adverse variance in Passenger receipts in 1979 which became betterments in 1980 and 1981. In Freight and Parcels receipts the variances were negligible in 1979 but became large betterments in 1980 and 1981. In order to determine the impact of inflation, it is again proposed to adjust the Rail Review figures recorded in Appendix 3(a) by the difference in the rate of inflation using the forecast indices (RPI) given in Appendix 2(d) and the actual indices in Appendix 1(d) and using for 1981 the inflation rate of 11.8% over 1980, as used by the BRB in producing the latest (May 1981) forecast. This produces the value of the inflation difference as follows:-

| | | £m |
|---|---|---|
| 1979 | B | 18 |
| 1980 | B | 139 |
| 1981 | B | 204 |

(B = Better, W = Worse than Review forecast)

Deducting these figures from the total receipts price variances in Appendix 4(a) produces an assessment of the real price

differences, in the price levels of each year, as given below:-

| | Passenger | Freight | Parcels | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| 1979 | W 40 | W 4 | W 4 | W 48 |
| 1980 | W 49 | W 16 | W 2 | W 67 |
| 1981 | W 45 | W 43 | W 5 | W 93 |

(B = Better, W = Worse than Review forecast)

Once again, the variances on forecast real price increases were both large and adverse. However, they were not as large as those relating to the 1975 Review mainly because of lower forecast improvements in Passenger and Freight carryings. In turn, these lower carryings, mainly on the Passenger side, were related to lower investment levels compared with the 1975 Review, as discussed in Chapter 11. However, the reduced carryings (i.e. actual compared with forecast) only represented a logical explanation of the Freight receipts real price variances, e.g. the forecast tonnes in 1980 were 184 million but the actual result was 153 million. In respect of Passenger miles, the carryings were higher than forecast in the Review in all years except 1981, representing another inconsistency in the forecasts.

In respect of working expenses, the impact of incorrect estimation of inflation (assessed by making similar calculations) was as follows:-

| | | £m |
|---|---|---|
| 1979 | W | 24 |
| 1980 | W | 179 |
| 1981 | W | 250 |

(B = Better, W = Worse than Review forecast)

By deducting these variances from the total working expenses price variances recorded in Appendix 4(a), it is possible to assess the differences between the forecast and actual levels of real price increases, as given below:-

| | | £m |
|---|---|---|
| 1979 | B | 48 |
| 1980 | B | 54 |
| 1981 | B | 29 |

(B = Better, W = Worse than Review forecast)

Thus, similarly to the outcome of the 1974 Plan and the 1975 Review, the 1980 variance reflected a continuing tendency to over-estimate the extent of real pay increases.

Turning to the volume variances, it can be seen in Appendix 4(a) that these were very substantial, reaching W £201m and W £243m in 1980 and 1981, respectively. Again it is not possible to identify and measure all of the reasons for this but some reasons can be deduced from the data collected in the appendices and in Chapter 11.

In respect of Passenger receipts, the increase in 1979 of £33m

was consistent with underestimation of the Consumers' Expenditure Index (which stood at 104.7 compared with a forecast of 102.5) and by an improvement in the base year situation of £23m. The forecast of the Consumers' Expenditure Index for 1980 was very close to the actual and the variance of B £24m was related mainly to the base year underestimate. The deterioration in 1981 was as a result of the recession which was not forecast, partly offset by the base year underestimate. The fall off in the Consumers' Expenditure Index ('latest' estimate of 103.7 compared with a forecast of 107.1) represented a loss of receipts of approximately £33m.

In respect of Freight receipts, the adverse variances can be largely explained by comparing the forecasts of UK Industrial Production (including oil) with the emerging results. The forecasts for 1979 and 1980 were indices of 103.5 and 106.6 respectively. The actual result was 102.6 and 95.6. This down-turn in industrial activity did not explain the whole of the variance of W £112m in 1980 but the balance was largely accounted for by the BSC strike (W £28m). The further decline in 1981 has stemmed from continuation of the recessionary downturn in Industrial Production.

Differences between forecast and actual Industrial Production indices also largely explain the Parcels volume variance in 1980 (W £13m) and part of the 1981 downturn. However, a large part (£26m) of the 1981 variance was related to the decision to withdraw from the Parcels C & D sector, which was not forecast in the 1978 Rail Review.

Moving to working expenses, because of lower forecasts, these have not been heavily affected by overestimation/underspending of revenue investment, as applied in respect of the 1974 Plan and the 1975 Review. (An exception to this was 1979 where actual revenue investment was £22m lower than forecast). This explains why the total volume variances were adverse and not betterments as on the two previous occasions. The explanation for these variances lay very largely in non-achievement of forecast reductions in some resources, (see Appendices 2(c) and 1(c)). This feature was most marked in respect of manpower where the differences were as follows:-

| | Manpower Numbers (000's) | | |
|---|---|---|---|
| | 1978 Rail Review Forecast | Actual | Variances on Forecast |
| 1978 Base | 175.5 | 178.1 | + 2.6 |
| 1979 | 169.4 | 177.9 | + 8.5 |
| 1980 | 165.3 | 174.0 | + 8.7 |
| 1981 | 161.0 | 168.7* | + 7.7 |

* Latest Estimate - May 1981

It is necessary to note that, unlike in respect of the 1974 Plan and the 1975 Review, no allowance was made in the 1978 Review (or subsequently) for any additional staff relating to improvements in conditions of service. Thus, in the absence of any significant actual improvements, the variances with the forecasts reflected a clear indication of non-achievement of manpower reductions.

## 16.3.4. 1979 Rail Review Forecasts Compared with Actual Results 1979 to 1980 and Latest Estimate 1981

The financial and physical results for 1979 and 1980 and the latest expectations for 1981 were also considerably different to the forecasts contained in the 1979 Rail Review. In terms of the PSO Grant and the Non-Passenger profit and loss situation, the position was as described in Table 16.7.

| | Year | | |
|---|---|---|---|
| | 1979 | 1980 | 1981* |
| | £m | £m | £m |
| Passenger | | | |
| 1979 Rail Review - PSO Grant | 502 | 566 | 677 |
| Actual PSO Grant | 523 | 634 | 740 |
| Actual Profit/(Loss) | 1 | (32) | (47) |
| Non-Passenger Profit/(Loss) | | | |
| 1979 Rail Review | (2) | 4 | 38 |
| Actual | (2) | (48) | (57) |

* Latest Estimate - May 1981

Table 16.7. 1979 Rail Review Forecasts Compared with Actual Results 1979 to 1980 and Latest Estimate 1981 - Financial Summary

Again, it can be seen that the actual results were worse than the forecasts, in estimated actual price levels. Indeed, as in respect of the 1978 Review, the 1979 Rail Review forecasts (allowing for the impact of inflation) were again considerably worse than the 'worst' estimates contained within the risk analysis, described in Chapter 11, again in respect of

Passenger and Freight receipts.

Combining the Passenger and Non-Passenger figures produces variances from the Rail Review forecasts as shown in Table 16.8.

| | | £m |
|---|---|---|
| Variance from Review | | |
| Year 1979 | W | 20 |
| 1980 | W | 152 |
| 1981 | W | 205* |

* Latest Estimate - May 1981

(B = Better, W = Worse than Review forecast)

Table 16.8. Variances between Actual Results 1979 and 1980 (and Latest Estimate 1981) and 1979 Rail Review Forecasts 1979 to 1981

Again, these variances are analysed between price and volume factors in Appendix 4(a). It can be seen that, in 1980, the net situation was dominated by a volume variance of W £134m. In 1981, both the price and volume variances were large at W £85m and W £120m, respectively.

Looking first at the price variances, it will be observed that there were betterments in Passenger, Freight and Parcels in each of the years 1979 to 1981. In order to determine the impact of inflation, it is again proposed to adjust the Rail Review figures recorded in Appendix 3(a) by the difference in the rate of inflation, using the forecast indices (RPI) given in appendix 2(d) and the actual indices in Appendix 1(d), and

using for 1981 the inflation rate of 11.8% over 1980, as used by the BRB in producing the latest (May 1981) forecast. This produces the value of the inflation differences as follows:-

| | | £m |
|---|---|---|
| 1980 | B | 113 |
| 1981 | B | 173 |

(B = Better, W = Worse than Rail Review forecast)

Deducting this figure from the total receipts price variances in Appendix 4(a), produces an assessment of the real price differences as given below:-

| | Passenger | Freight | Parcels | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| 1980 | W 5 | B 16 | B 8 | B 19 |
| 1981 | B 1 | W 3 | B 6 | B 4 |

(B = Better, W = Worse than Review forecast)

Contrary to the experience noted earlier in respect of the 1974 Plan and the 1975 and 1978 Reviews, the differences were largely betterments on this occasion. This was partly because considerably smaller real price increases had been included in the 1979 Review forecast compared with earlier forecasts (see Appendix 2(a) - page 4).

In respect of working expenses, the impact of incorrect estimation of inflation (assessed by making similar calculations) was as follows:-

| | | £m |
|---|---|---|
| 1980 | W | 153 |
| 1981 | W | 237 |

(B = Better, W = Worse than Review forecast)

It can be seen that these figures were relatively close to (but less than in 1981) the total price variances (W £150m in 1980 and W £262m in 1981). This was contrary to the experience of the previous Plan/Reviews where there had been a tendency to over-estimate the extent of real cost increases.

Moving to the volume variances, Appendix 4(a) shows that they were very substantial, reaching W £134m in 1980 and W £120m in 1981. Again, it is not possible to identify and measure all of the reasons for this but some can be deduced from the data collected in the appendices and Chapter 11.

In respect of Passenger receipts, the variances were quite small in 1980 (B £2m) despite the fact that Consumers' Expenditure which was forecast to increase by 2.7%, only increased by 0.6%. In the opinion of the author this contradiction was partly brought about by inaccuracies in the BRB's price/volume split of the 1980 variance over 1979 (used in Appendix 1(a) and thus in Appendix 4(a)). This split is arrived at by BRB on a subjective judgement basis and it is acknowledged by BRB planners that it cannot, by its very nature, be as accurate as can be calculated in respect of Freight and Parcels receipts or working expenses. It is considered by the author that this issue was probably material to the two 'inconsistencies' noted

earlier. The variance in 1981 was again related to the recession with a reduction in the Consumers' Expenditure Index (of 5.3% compared with the Review forecast) more than accounting for the variance of W £31m.

In respect of Freight receipts, the adverse variances can again be largely explained by comparing the forecasts of UK Industrial Production (including oil) with the emerging results. The forecasts for 1980 was an index of 103.5 compared with an actual index of 93.3. Coupled with the effect of the BSC strike (W £28m), this downturn in industrial activity closely matched the 1980 shortfall (W £88m). The further deterioration to £106m in 1981 was similarly related to the recessionary downturn in Industrial Production.

The Industrial Production indices also largely explained the Parcels volume variance in 1980 (W £13m) and part of the 1981 variance. However, a large part (£26m) of the 1981 Parcels variance was caused by the decision to withdraw from the Parcels C & D sector, which was not forecast in the 1979 Rail Plan.

Moving to working expenses, the pattern of variances was unusualwith adverse variances in the base year - 1979 (W £31m) and 1980 (W £35m) but becoming a betterment of £62m in 1981. In this instance, adverse variances cannot be attributed to non-achievement of forecast resource reductions which, manpower included, were not evident to any significant degree. The answer in 1979 and 1980 was related largely to higher than

anticipated levels of maintenance expenditure. In 1981, the situation was reversed with cuts being made in revenue investment (£32m), maintenance expenditure and operating overtime to help alleviate the worsening financial situation.

### 16.3.5. 1980 Rail Plan Forecasts Compared with Actual Result 1980 and Latest Estimate 1981

The financial and physical results in 1980 were close to the base forecast used in the production of the 1980 Rail Plan. This was not surprising since the base forecast was an 'outturn' update of the 1980 budget compiled in September 1980. However, the latest expectation of the 1981 result was considerably different to the Plan forecast. Indeed, a total adverse variance of £147m was anticipated (in May 1981). The summarised Plan forecasts compared with the 1980 result and 1981 latest estimate are shown in Table 16.9.

The forecast for 1981 was again worse than the 'worst' forecast contained within the risk analysis section of the 1980 Rail Plan, allowing for inflation. This repeated a failure which was evident in the 1978 and 1979 Rail Reviews although, in this particular case, the difference was confined to the Passenger PSO forecast (mainly receipts).

| | Year | |
|---|---|---|
| | 1980 | 1981* |
| | £m | £m |
| Passenger | | |
| 1980 Rail Plan | | |
| - PSO Grant | 635 | 680 |
| - Profit/(Loss) | (26) | |
| Actual PSO Grant | 634 | 740 |
| Actual Profit/(Loss) | (32) | (47) |
| Non-Passenger Profit/(Loss) | | |
| 1980 Rail Plan | (43) | 17 |
| Actual | (48) | (57) |

* Latest Estimate - May 1981

Table 16.9. 1980 Rail Plan Forecast Compared with Actual Results 1980 and Latest Estimate 1981 - Financial Summary

(Source : BRB internal records)

Continuing with the process of analysing the variances, which are shown in Appendix 4(a) between price and volume, it is intended to examine first the 1981 price variance of £71m. In doing this, it is evident that virtually the whole of the receipts variance (W £18m) was related to non-achievement of forecast real price increases. Similarly, the working expenses variance (W £53m) was related to real increases in expenditure (mainly pay) expected to be beyond the forecast level. The difference between the forecast rate of inflation in the Plan and the Board's latest estimate was not material. (11.8% latest estimate compared with 11.9% Plan forecast, both compared with 1980).

Moving to the 1981 volume variances, these were almost entirely confined to receipts and to the recession, the depth of which was not forecast in the 1980 Rail Plan. Indeed, it can be seen in Appendix 2(b) that the BRB expected growth in the UK Industrial Production (excluding oil) and Consumers' Expenditure. The latest results for 1981 used in Appendices 1(a) and 4(a) assumed reductions in these indices of 11.8% and 1.4% respectively, rather than the growth previously anticipated.

At first sight, the reductions in these indices seem out of line with the Passenger and Freight receipts volume variances given in Appendix 4(a). On the Freight side, the difference was caused by the BSC strike in 1980 which was not present in the 1981 figures. On the Passenger side, the author considers again that the BRB price/volume split of the 1981 variance over 1980 (used in Appendix 1(a) and thus in Appendix 4(a)) was not accurate. If this was the case, then the resistance to the 1980 Passenger price increases was greater than that declared by the BRB.

16.3.6. Latest Rail Plan 1981 Forecasts

It was noted in Section 6.3. of Chapter 6 that the May 1981 estimate of the Railways business financial results for 1981 was considerably worse than the 1980 situation. This deterioration has impacted itself on the 1981 Rail Plan, the May 1981 draft version of which shows a set of forecasts which are considerably worse than those contained within the published 1980 Corporate/Rail Plan (see Chapter 11 for details of the 1980 Plan).

Whereas the 1980 Plan indicated that the Railways business could (a) work within the estimated PSO cash limit level (b) work within the estimated EFL (Railways business share estimated by the BRB) and (c) make a profit in the Non-Passenger business, all during the years 1982 to 1985, the draft 1981 Plan comes to a different conclusion. Instead it suggests that, in 1981 price levels, (a) there will be a PSO 'deficit' of £91m in 1982 which might not be eliminated during the next five years, (b) there will be an EFL 'deficit' of £123m in 1982 reducing to £43m by 1986, (c) the Non-Passenger business will not break-even until 1983 and (d) the 1982 interim financial targets' would not be achieved.

As a consequence of these problems, the 1981 Rail Plan was not completed even as late as October 1981 and efforts are still continuing to find means of improving the situation. As noted in Chapter 6, further cut backs in maintenance and investment, asset sales and additional manpower reductions are likely to be decided upon before the end of 1981. Certainly the 1981 Rail Plan will not be finalised until its forecasts are considerably improved.

The great problem for the BRB now seems to be that, as long as the economic recession lasts, it will be necessary to trim investment expenditure far below required levels and even below the Government investment ceilings to stay within the EFL. Since the BRB already perceive that the investment ceilings need to increase substantially, for a large number of years, to catch up on a back-log of renewal to avoid extensive

speed restrictions and even line closures, the physical state of the assets is likely to continue to decline.

16.3.7. Summary

In summary, there have been considerable differences between the Rail Plan/Review forecasts and the actual results. The areas containing the most significant differences have been:-

a) Passenger receipts growth/real pricing.

b) Freight receipts growth.

c) Real price increases in working expenses (mainly pay).

d) Macro-economic forecasts relating to a), b) and c).

e) Volume of investment (revenue and capital).

f) Manpower reductions.

g) The 'worst' forecasts built into the risk analyses.

All of these points were accepted, after discussion, by the BRB planners consulted. They emphasised that the receipts volume and real price variances were partly the result of non-achievement of expected growth in the UK economy (macro-economic indicators) and partly through non-acceptance by Government of the forecast increases in the investment ceilings. In respect of the macro-economic indicators, they added that the BRB forecasts had been close to those produced, at the same time, by the Government and other forecasters. In respect of the investment ceilings, this was related to the problem discussed earlier whereby the BRB have assumed investment profiles which match their estimated requirements in the hope that increases in the investment ceilings will be permitted by Government. In the event, no

such increases have been forthcoming.

The differences in respect of real price increases in working expenses which occurred in the 1974 Rail Plan and the 1975 and 1978 Rail Reviews, were largely a result of overestimating the likely real increases in pay levels. The low pay increases in 1976 and 1977 resulting from National pay policy were not forecast by the BRB; instead real increases were forecast for those years.

In respect of the non-achievement of forecast manpower reductions in the 1974 Plan and the 1975 Review (allowing for the 'conditions of service' increases that were not implemented) and in the 1978 Review, the BRB planners were of the opinion that an optimistic view had been taken in those plans of the ability of the BRB to achieve the savings relating to strategic changes. However, that optimism had been sufficiently well founded for the BRB to announce in 1976 ('Transport Policy - An Opportunity for Change') even larger reductions than that contained within those plans. Compared with an approximate number of staff of '190,000 on 1 January 1976' a 'gross manpower reduction of 40,000 (over 20%) by 1981' was forecast in that document. That announcement contained a caveat concerning an offsetting increase in respect of 'conditions of service' which was not quantified, but in the period 1976 to 1981 this has not proved to be a material factor. Consequently, the 'latest estimate' of 168,700 staff at the end of 1981 is some 18,700 above the level that was once expected. Additionally, it has been strongly recommended (Pryke and Dodgson, 1975) that

reductions of 60,000 to 70,000, within a shorter timescale, were capable of achievement.

BRB planners have explained to the author that difficult industrial relations implications of progressing change, coupled with a lack of clarity on the intentions (i.e. no detailed action plans agreed with those who have to implement the changes), have militated against achieving manpower reductions at the desired pace. However, sizeable reductions in manpower numbers had been achieved in 1980 and 1981 (latest estimate), in line with the forecasts contained within the 1979 Rail Review and the 1980 Plan. These reductions had been motivated by the developing financial crisis.

Finally, in respect of the differences in the risk analysis forecasts, it was agreed by the BRB planners that this was not the fault of the chosen method but of inaccurate forecasting. They added that every effort was being made to learn from this experience and produce more accurate best/worst estimates in future plans.

## 16.4. Spin-Off Benefits

Despite the theoretical and practical inadequacies noted in this chapter, it is considered by the author, and agreed by the planners consulted, that the BRB corporate planning process and procedures have produced two important spin-off benefits.

The first is that the plans have become one of the most important

items of communication between the BRB and the Government. As a result, Department of Transport officials are gradually acquiring a better understanding of the problems of the BRB, how they have been created and how they might be solved. This might auger well for future decision making.

The second is that the planning process has created the need for and, to a large extent resulted in, the appointment of managers, particularly at headquarters level, who have a forward-looking attitude and are anxious to make change happen. This does not apply just to the professional planners but to most managers, who see planning as a vital part of their job. Again, this might auger well for the future.

# CHAPTER 17

# CONCLUSIONS AND RECOMMENDATIONS

In Chapter 16, it was established that:-

1. There have been a number of theoretical deficiencies in the BRB's corporate planning process which have adversely affected the success with which they have performed that process. These deficiencies have been related to:-
   a) Inadequate determination of values, objectives and goals (jointly with Government).
   b) A lack of strategic direction in the plans prepared during the years 1975 to 1979.
   c) An absence of strategic contingency plans.
   d) An absence of action plans, thus preventing the full and committed involvement of Regional management.
   e) An absence of a formal back-check system to ensure that failings in any one strategic plan become lessons for the next.
2. There are no major theoretical deficiencies in the BRB's corporate planning procedures.
3. There have been a number of major differences between Rail Plan/Review forecasts and actual results, since 1974.
4. There have been two significant 'spin-off' benefits of the BRB's corporate planning process.

In establishing these conclusions, the author set out to test the remaining four hypotheses. In his opinion, this requirement has been achieved in that:-

Seventh Hypothesis

It has been demonstrated that there are generally accepted measures of success which can be used to assess the success of the application of corporate planning.

Eighth Hypothesis

These success criteria have been fully capable of being used in respect of the British Railways Board.

Ninth Hypothesis

Because of external economic factors, the corporate plans produced by the British Railways Board have not been successfully implemented and have undergone considerable change. This has applied particularly in respect of the 1974 and 1975 Corporate/Rail Plans where, for economic reasons, the Government were not able to honour the investment requirements relating to a strategy to which they had previously agreed.

Tenth Hypothesis

As a result of the two 'spin-off' benefits noted above and detailed in Chapter 16, the value of corporate planning to the BRB has, to some extent, been in the process itself and not just in the plans.

In the final analysis, however, the author has had to assess the success of corporate planning in the BRB. His opinion, based on all of the evidence martialled in this thesis and summarised in Chapter 16, is that it has been largely unsuccessful. On a subjective scale of one, for unsuccessful,

to 10, for completely successful, the author considers a mark of 3 would be reasonable indication of the relative success rate.

However, the author considers that the BRB can overcome the theoretical and practical deficiencies noted in Chapter 16. To assist in this regard, this thesis is concluded by identifying a number of positive steps which the BRB should take. Discussions with BRB planners indicate that each recommendation is acceptable but that some will be adopted much sooner than others.

In brief, the author recommends that the BRB should take steps as speedily as possible to:-

a) Develop and agree with Government definitive, long-term financial and non-financial objectives for each business and for the four sectors of the Passenger business.

b) Similarly develop and agree intermediate goals.

c) Update the current business strategies to take account of the recent strategy studies, agreeing the revisions with Government.

d) Fully describe the objectives, strategies and related forecasts to managers at all levels and Trade Union officials/ representatives.

e) Develop 2 or 3 year Railways business action plans, in conjunction with Regional management, which are complimentary to the strategic plans (i.e. the Rail Plans).

f) Develop similar action plans in respect of the subsidiary businesses.

g) Develop a system of back-checking on implementation of each

strategic plan to ensure that lessons are learned at the commencement of the next annual planning cycle.

h) Develop a system of monitoring progress on implementing the action plans, at intervals coincident with the 12 week and 32 weeks Outturn production.

i) Develop contingency plans in each strategic plan (associated with the risk or with sensitivity analysis) to ensure that considered corrective action can be taken if the action plan monitoring system records significant adverse variances to the forecasts.

j) Attempt to improve the quality of forecasting, particularly in respect of:-

Macro-economic trends

Real price increases in receipts

Real price increases in expenditure

Receipts volume growth

Revenue and Capital Investment

Manpower reductions

Risk analysis range forecasts

It is clear from discussions with BRB planners that, whilst all the recommendations are considered correct and acceptable, the first and last will be the most difficult to adopt. In regard to the first recommendation, the opinion held by BRB planners is that it will be a considerable time before Government can liaise with the BRB in the manner required. That might demand not only a change of attitude but probably also a more buoyant national economy which would alleviate the pressures of the public spending borrowing requirement and permit investment

ceilings and external financing limits to be closer to perceived requirements.

In respect of the last recommendation, the point is stressed by BRB planners that it is extremely difficult to forecast the macro-economic indices and even the Government gets them wrong by large margins. The author's rejoinder to this comment is that considerably more caution should be applied in respect of the macro-economic forecasts, irrespective of Government forecasts - which by their very nature tend to be optimistic.

An associated point which is fully accepted by BRB planners is, however, that irrespective of the difficulties associated with macro-economic trends, there is a tendency in the BRB to produce optimistic forecasts in respect of receipts growth/real price increases and resource reductions - particularly manpower. With typical good humour, this is known within BRB headquarters as the 'hockey-stick syndrome', referring to 'bottom-line' graphs which record that the recent past has become progressively worse but the forecast future will produce excellent results with a very steep trend line. Most of the forecasts contained within Chapter 11 came into this category.

To conclude, the author considers that the BRB should place considerable stress on the risk analysis procedure (or sensitivity analysis), the associated preparation of contingency plans and the preparation and monitoring of action plans. The risk analysis procedure requires far better forecasting. It is almost absurd to have noted that financial results within a

year or two of the respective forecasts have turned out to be outside (adverse variances) the ranges of the risk analysis forecasts prepared, in theory at least, to three standard deviations. Given that these forecasts are better prepared or, alternatively, that sensitivity analysis is used with some accuracy, the contingency plans could be related to selected risk levels and be triggered into action by the action plan monitoring arrangements.

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TABLE OF APPENDICES

There are eleven Appendices immediately following this Table which have been produced in support of information contained in Chapters 6, 11 and 16. The sources of the data are varied and, in a number of instances the author has had to make calculations, using BRB data and methods, in order that the presentation can be on a common basis. Brief details of the sources and the calculations which were necessary are given below in respect of each Appendix.

| Appendix | Title/Element | Source of Data | | | | |
|---|---|---|---|---|---|---|
| | | A | B | C | D | E |
| 1(a) | BRB - Railways Business Profit and Loss Results 1974 to 1980 and Forecast 1981 | | | | | |
| | - Results 1974 to 1980 | x | x | | | |
| | - Forecast 1981 | | x | | | |
| | - Year on Year causes of change | | x | x | | |
| | - Cumulative causes of change | | | | x | |
| 1(b) | BRB - Railways Business Investment Expenditure Results 1974 to 1980 and Forecast 1981 | | | | | |
| | - Results 1974 to 1980 | | x | | | |
| | - Forecast 1981 | | x | | | |
| 1(c) | BRB - Railways Business Selected Physical Facts Results 1974 to 1980 and Forecast 1981 | | | | | |
| | - Results 1974 to 1980 | x | x | | | |
| | - Forecast 1981 | | x | | | |
| 1(d) | BRB - Railways Business Actual Results of Items Used in Main Planning Assumptions | | | | | x |
| 2(a) | BRB - Railways Business Profit and Loss Forecasts in Constant Prices | | | | | |
| | - Forecasts | | x | x | | |
| | - Causes of change | | x | x | | |

| Appendix | Title/Element | Source of Data | | | | |
|---|---|---|---|---|---|---|
| | | A | B | C | D | E |
| 2(b) | BRB - Railways Business Investment Forecasts in constant prices | | x | x | | |
| 2(c) | BRB - Railways Business Selected Physical Facts Forecasts | | x | x | | |
| 2(d) | BRB - Railways Business Plans/ Reviews Main Planning Assumptions/Forecasts | | x | x | | |
| 3(a) | BRB - Railways Business Plans/ Reviews Profit and Loss Forecasts in Estimated Actual Prices | | | | | |
| | - Forecasts 1974 Plan | | x | x | x | |
| | 1975 Review | | x | x | | |
| | 1978 Review | | x | x | | |
| | 1979 Review | | | | x | |
| | 1980 Plan | | | | x | |
| | - Causes of change | | x | x | x | |
| 3(b) | BRB - Railways Business Plans/ Reviews Investment Forecasts in Estimated Actual Prices | | | | | |
| | - Forecasts 1974 Plan | | x | x | x | |
| | 1975 Review | | x | x | | |
| | 1978 Review | | x | x | | |
| | 1979 Review | | | | x | |
| | 1980 Plan | | | | x | |
| 4(a) | BRB - Railways Business Profit and Loss Results 1974 to 1980 and Forecast 1981 compared with Plan/Review Forecasts in Estimated Actual Prices | | | | x | |

Key

A = Annual Report and Accounts

B = Internal BRB Management Information Systems

C = BRB Files and Working Papers

D = Author's calculations using BRB data or actual inflation indices (RPI)

E = Central Statistical Office Economic Trends Annual Supplement,1981 Edition and April 1981 Edition of CSO Monthly Digest of Statistics (HMSO)

British Railways Board

## Railways Business - Profit and Loss Results 1974 to 1980 and Forecast 1981

£m

| | | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| | Receipts (including Ancillary Income) | | | | | | | | |
| 1. | - Passenger | 331 | 435 | 511 | 600 | 707 | 805 | 962 | 1,074 |
| 2. | - Freight | 224 | 262 | 328 | 371 | 412 | 464 | 484 | 528 |
| 3. | - Parcels | 76 | 88 | 98 | 110 | 119 | 132 | 142 | 126 |
| 4. | - Total | 631 | 785 | 937 | 1,081 | 1,238 | 1,401 | 1,588 | 1,728 |
| 5. | Working Expenses (including Interest) | 947 | 1,171 | 1,288 | 1,420 | 1,679 | 1,925 | 2,302 | 2,572 |
| 6. | Profit / (Loss) before Grants | (316) | (386) | (351) | (339) | (441) | (524) | (714) | (844) |
| 7. | P.S.O. Grant (including P.T.E.) | | 324 | 319 | 364 | 434 | 523 | 634 | 740 |
| 8. | Non - Passenger Grant | | 66 | 35 | (3) | | | | |
| | Profit / (Loss) after Grants | | | | | | | | |
| 9. | - Passenger | | 4 | 3 | 22 | (7) | 1 | (32) | (47) |
| 10. | - Non - Passenger | | - | - | - | - | (2) | (48) | (57) |
| 11. | 1974 Profit/ (Loss) before Passenger Grants | (316) | | | | | | | |
| | Causes of Change (Year on Year) | | | | | | | | |
| | Price Levels of Receipts | | | | | | | | |
| 12. | - Passenger | | B 88 | B 75 | B 62 | B 74 | B 68 | B 140 | B 125 |
| 13. | - Freight | | B 62 | B 68 | B 52 | B 46 | B 56 | B 89 | B 56 |
| 14. | - Parcels | | B 21 | B 17 | B 19 | B 14 | B 14 | B 27 | B 16 |
| 15. | - Total | | B 171 | B 160 | B 133 | B 134 | B 138 | B 256 | B 197 |
| 16. | Price Levels of Working Expenses | | W 223 | W 164 | W 130 | W 150 | W 223 | W 365 | W 319 |
| 17. | Net Price Changes on Profit/ (Loss)before Grants | | W 52 | W 4 | B 3 | W 16 | W 85 | W 109 | W 122 |
| | Volume of Receipts | | | | | | | | |
| 18. | - Passenger | | B 16 | B 1 | B 27 | B 33 | B 30 | B 17 | W 13 |
| 19. | - Freight | | W 24 | W 2 | W 9 | W 5 | W 4 | W 69 | W 12 |
| 20. | - Parcels | | W 9 | W 7 | W 7 | W 5 | W 1 | W 17 | W 32 |
| 21. | - Total | | W 17 | W 8 | B 11 | B 23 | B 25 | W 69 | W 57 |
| 22. | Volume of Working Expenses | | W 1 ø | B 47 | W 2 | W 109* | W 23 | W 12 | B 49 |
| 23. | Net Volume Changes in Profit/(Loss)before Grants | | W 18 ø | B 39 | B 9 | W 86* | B 2 | W 81 | W 8 |

Notes

1. B = Better W = Worse
2. * Includes £50m. Special Replacement Allowance.
3. ø Includes approximate effect of Railways Act 1974 = W£13m. (Accounting changes W£58m. Reduced Interest B£45m.)
4. The forecast for 1981 is as seen by the B.R.B. in May 1981.

Railways Business - Profit and Loss Results 1974 to 1980 and Forecast 1981 £m



| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| Causes of Change - on 1974 Base | Base | | | | | | | |
| Price Levels of Receipts | | | | | | | | |
| 12. - Passenger | | B 88 | B 163 | B 225 | B 299 | B 367 | B 507 | B 632 |
| 13. - Freight | | B 62 | B 130 | B 182 | B 228 | B 284 | B 373 | B 429 |
| 14. - Parcels | | B 21 | B 38 | B 57 | B 71 | B 85 | B 112 | B 128 |
| 15. - Total | | B 171 | B 331 | B 464 | B 598 | B 736 | B 992 | B1,189 |
| 16.Price Levels of Working Expenses | | W 223 | W 387 | W 517 | W 667 | W 890 | W1,255 | W1,574 |
| 17.Net Price Changes in Profit/(Loss) before Grants | | W 52 | W 56 | W 53 | W 69 | W 154 | W 263 | W 385 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | B 16 | B 17 | B 44 | B 77 | B 107 | B 124 | B 111 |
| 19. - Freight | | W 24 | W 26 | W 35 | W 40 | W 44 | W 113 | W 125 |
| 20. - Parcels | | W 9 | W 16 | W 23 | W 28 | W 29 | W 46 | W 78 |
| 21. - Total | | W 17 | W 25 | W 14 | B 9 | B 34 | W 35 | W 92 |
| 22.Volume of Working Expenses | | W 1 | B 46 | B 44 | W 65 | W 88 | W 100 | W 51 |
| 23.Net Volume Changes in Profit/(Loss)before Grants | | W 18 | B 21 | B 30 | W 56 | W 54 | W 135 | W 143 |
| Cause of Change - on 1975 Base | | Base | | | | | | |
| Price Levels of Receipts | | | | | | | | |
| 12. - Passenger | | | B 75 | B 137 | B 211 | B 279 | B 419 | B 544 |
| 13. - Freight | | | B 68 | B 120 | B 166 | B 222 | B 311 | B 367 |
| 14. - Parcels | | | B 17 | B 36 | B 50 | B 64 | B 91 | B 107 |
| 15. - Total | | | B 160 | B 293 | B 427 | B 565 | B 821 | B1,018 |
| 16.Price Levels of Working Expenses | | | W 164 | W 294 | W 444 | W 667 | W1,032 | W1,351 |
| 17.Net Price Changes in Profit/(Loss) before Grants | | | W 4 | W 1 | W 17 | W 102 | W 211 | W 333 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | B 1 | B 28 | B 61 | B 91 | B 108 | B 95 |
| 19. - Freight | | | W 2 | W 11 | W 16 | W 20 | W 89 | W 101 |
| 20. - Parcels | | | W 7 | W 14 | W 19 | W 20 | W 37 | W 69 |
| 21. - Total | | | W 8 | B 3 | B 26 | B 51 | W 18 | W 75 |
| 22.Volume of Working Expenses | | | B 47 | B 45 | W 64 | W 87 | W 99 | W 50 |
| 23.Net Volume Changes in Profit/(Loss)before Grants | | | B 39 | B 48 | W 38 | W 36 | W 117 | W 125 |

Notes
1. B = Better W = Worse
2. All changes are cumulative on the base year actual result.
3. See remarks on Appendix 1 (a) - Page 1 in respect of effect of Special Replacement Allowance and Railways Act, 1974.
4. The forecast for 1981 is as seen by the B.R.B. in May 1981.

British Railways Board

Railways Businesss - Profit and Loss Results 1974 to 1980 and Forecast 1981 £m

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| Causes of Change on 1978 Base | | | | | Base | | | |
| Price Levels of Receipts | | | | | | | | |
| 12. - Passenger | | | | | | B 68 | B 208 | B 333 |
| 13. - Freight | | | | | | B 56 | B 145 | B 201 |
| 14. - Parcels | | | | | | B 14 | B 41 | B 57 |
| 15. - Total | | | | | | B 138 | B 394 | B 591 |
| 16. Price Levels of Working Expenses | | | | | | W 223 | W 588 | W 907 |
| 17. Net Price Changes in Profit/(Loss) before Grants | | | | | | W 85 | W 194 | W 316 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | | | | B 30 | B 47 | B 34 |
| 19. - Freight | | | | | | W 4 | W 73 | W 85 |
| 20. - Parcels | | | | | | W 1 | W 18 | W 50 |
| 21. - Total | | | | | | B 25 | W 44 | W 101 |
| 22. Volume of Working Expenses | | | | | | W 23 | W 35 | B 14 |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | | | | B 2 | W 79 | W 87 |
| Causes of Change on 1979 Base | | | | | | Base | | |
| Price Levels of Receipts | | | | | | | | |
| 12. - Passenger | | | | | | | B 140 | B 265 |
| 13. - Freight | | | | | | | B 89 | B 145 |
| 14. - Parcels | | | | | | | B 27 | B 43 |
| 15. - Total | | | | | | | B 256 | B 453 |
| 16. Price Levels of Working Expenses | | | | | | | W 365 | W 684 |
| 17. Net Price Changes in Profit/(Loss) before Grants | | | | | | | W 109 | W 231 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | | | | | B 17 | B 4 |
| 19. - Freight | | | | | | | W 69 | W 81 |
| 20. - Parcels | | | | | | | W 17 | W 49 |
| 21. - Total | | | | | | | W 69 | W 126 |
| 22. Volume of Working Expenses | | | | | | | W 12 | B 37 |
| 23. Net Price Changes in Profit/(Loss) before Grants | | | | | | | W 81 | W 89 |

Notes
1. B = Better W = Worse
2. All changes are cumulative on the base year actual results
3. See remarks on Appendix 1(a) - Page 1 in respect of effect of Special Replacement Allowance and Railway Act 1974.
4. The forecast for 1981 is as seen by the B.R.B. in May 1981.

British Railways Board

Railways Business - Profit and Loss Results 1974 to 1980 and Forecast 1981 £m



| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| Causes of Change on 1980 Base | | | | | | | Base | |
| Price Levels of Receipts | | | | | | | | |
| 12. - Passenger | | | | | | | | B 125 |
| 13. - Freight | | | | | | | | B 56 |
| 14. - Parcels | | | | | | | | B 16 |
| 15. - Total | | | | | | | | B 197 |
| 16. Price Levels of Working Expenses | | | | | | | | W 319 |
| 17. Net Price Changes in Profit/(Loss) before Grants | | | | | | | | W 122 |
| Volume of Receipts | | | | | | | | |
| 12. - Passenger | | | | | | | | W 13 |
| 13. - Freight | | | | | | | | W 12 |
| 14. - Parcels | | | | | | | | W 32 |
| 15. - Total | | | | | | | | W 57 |
| 16. Volume of Working Expenses | | | | | | | | B 49 |
| 17. Net Price Changes in Profit/(Loss) before Grants | | | | | | | | W 8 |

Notes

1. B = Better W = Worse
2. All changes are cumulative on the base year actual result.
3. See remarks in Appendix 1(a) - Page 1 in respect of effect of Special Replacement Allowance and Railways Act, 1974.
4. The forecast for 1981 is as seen by the B.R.B. in May 1981.

British Railways Board — Railways Business - Investment Expenditure Results 1974 to 1980 and Forecast 1981 — £m — Appendix 1 (b)

| | | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| 1. | Revenue Investment | - | 104 | 92 | 126 | 163 | 171 | 117 | 123 |
| 2. | Capital Investment | 150 | 98 | 119 | 115 | 105 | 131 | 167 | 177 |
| 3. | Total Investment | 150 | 212 | 211 | 241 | 268 | 302 | 284 | 300 |
| 4. | Total Investment Ceiling Allocated to Railways Business | 159 | 197 | 231 | 268 | 294 | 308 | 284 | 336 |
| 5. | Total B.R.B. Investment Ceiling | 178 | 224 | 259 | 303 | 333 | 380 | 356 | 398 |

Notes

1. In 1980, expenditure on the Complete Continuous Welded Rail was removed from the Revenue Investment category and became ordinary maintenance expenditure. The Investment Ceiling was reduced by £78m.(in 1979 prices) to allow for this adjustment.

2. The forecast for 1981 is as seen by the B.R.B. in May 1981.

Appendix 1 (b)

British Railways Board

Railways Business - Selected Physical Facts Results 1974 to 1980 and Forecast 1981 £m



| | | | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. | Passenger Miles | (000 Millions) | 19.2 | 18.8 | 17.7 | 18.2 | 19.1 | 19.9 | 19.7 | 18.9 |
| 2. | Freight Tonnes | ( Millions) | 177 | 176 | 176 | 170 | 170 | 169 | 153 | 148 |
| 3. | Passenger Loaded Train Miles | ( Millions) | 186 | 192 | 189 | 193 | 196 | 196 | 203 | 200 |
| 4. | Freight Loaded Train Miles | ( Millions) | 51 | 47 | 43 | 40 | 40 | 36 | 32 | 29 |
| 5. | Parcels Loaded Train Miles | ( Millions) | 13 | 13 | 13 | 13 | 12 | 11 | 11 | 9 |
| 6. | Locomotives | ( Numbers) | 3,971 | 3,860 | 3,689 | 3,610 | 3,580 | 3,571 | 3,379 | 3,004 |
| 7. | Passenger Coaching Vehicles - Locomotive Hauled | ( Numbers) | 7,154 | 6,826 | 6,365 | 6,086 | 5,967 | 5,885 | 5,567 | 4,825 |
| 8. | Passenger Coaching Vehicles - Diesel Multiple Unit | ( Numbers) | 3,427 | 3,402 | 3,367 | 3,313 | 3,293 | 3,284 | 3,257 | 3,052 |
| 9. | Passenger Coaching Vehicles - Electric Multiple Units | ( Numbers) | 7,156 | 7,225 | 7,228 | 7,343 | 7,341 | 7,458 | 7,558 | 7,339 |
| 10. | High Speed Train - sets | ( Numbers) | - | 1 | 21 | 38 | 54 | 68 | 71 | 92 |
| 11. | Advanced Passenger Train - sets | ( Numbers) | - | - | - | - | 1 | 2 | 3 | 3 |
| 12. | Freight Vehicles | ( 000's ) | 245 | 218 | 188 | 168 | 151 | 138 | 120 | 91 |
| 13. | Parcels Coaching Vehicles | ( Numbers) | 5,501 | 5,439 | 5,262 | 4,838 | 4,430 | 4,336 | 4,026 | 2,332 |
| 14. | Manpower Requirements | ( 000's ) | 210.2 | 208.5 | 202.4 | 198.6 | 197.3 | 197.5 | 192.8 | 178.6 |
| 15. | Manpower Actual Numbers | ( 000's ) | 194.9 | 189.9 | 182.7 | 178.2 | 178.1 | 177.9 | 174.0 | 168.7 |
| 16. | Route Miles | ( 000's ) | 11.3 | 11.3 | 11.2 | 11.2 | 11.1 | 11.0 | 11.0 | 10.8 |
| | - of which electrified | | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| 17. | Track Miles | ( 000's ) | 29.3 | 28.9 | 28.7 | 28.6 | 28.3 | 27.6 | 27.3 | 26.7 |
| 18. | Passenger Journeys | ( Millions) | 733 | 730 | 707 | 710 | 734 | 748 | 760 | N/A |
| 19. | Freight Net Tonne Miles | (000 Millions) | 13.7 | 13.0 | 12.8 | 12.5 | 12.4 | 12.4 | 11.0 | 10.8 |
| 20. | Parcels Tonnes | ( 000's ) | 1,800 | 1.725 | 1,446 | 1,309 | 1,247 | 1,235 | 1,180 | N/A |

Notes

1. The forecast for 1981 is as seen by the B.R.B. in May 1981.
2. All resources relate to the year-end situation.
3. N/A = Not Available.

British Railways Board

Railways Business - Selected Physical Facts Results 1974 to 1980 and Forecast 1981

| | | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| **Analysis of Passenger Miles** | (000 Millions) | | | | | | | | |
| 1. Inter - City | | 8.2 | 8.8 | 8.0 | 8.4 | 9.0 | 9.4 | 9.2 | 8.9 |
| 2. London and South East | | 8.2 | 7.3 | 7.1 | 7.3 | 7.6 | 7.7 | 7.7 | 7.4 |
| 3. Passenger Transport Executives | | 2.8 | 1.6 | 1.6 | 1.5 | 1.5 | 1.7 | 1.5 | 1.3 |
| 4. Other Provincial | | | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 | 1.3 | 1.3 |
| 5. Total | | 19.2 | 18.8 | 17.7 | 18.2 | 19.1 | 19.9 | 19.7 | 18.9 |
| **Analysis of Freight Tonnes** | ( Millions) | | | | | | | | |
| 6. Trainload | | 135 | 139 | 145 | 137 | 144 | 144 | 135 | 132 |
| 7. Wagonload | | 41 | 36 | 29 | 31 | 24 | 23 | 15 | 12 |
| 8. Speedlink | | 1 | 1 | 2 | 2 | 2 | 2 | 3 | 4 |
| 9. Total | | 177 | 176 | 176 | 170 | 170 | 169 | 153 | 148 |

Notes

1. The forecast for 1981 is as seen by the B.R.B. in May 1981.

British Railways Board

Railways Business - Actual Results of Items Used in Main Planning Assumptions 1974 to 1980

Appendix 1 (d)

| Macro - Economic Indices - All Cumulative on Base Year | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|
| 1. Inflation - Retail Price Index | | | | | | | |
| 1974 Base | 100.0 | 124.2 | 144.7 | 167.7 | 181.6 | 206.0 | 243.0 |
| 1975 Base | | 100.0 | 116.5 | 135.0 | 146.2 | 165.8 | 195.6 |
| 1978 Base | | | | | 100.0 | 113.4 | 133.8 |
| 1979 Base | | | | | | 100.0 | 118.0 |
| 2. Gross Domestic Product(in Constant Prices) | | | | | | | |
| 1974 Base | 100.0 | 99.4 | 103.6 | 104.7 | 107.8 | 108.5 | 106.5 |
| 1975 Base | | 100.0 | 104.3 | 105.4 | 108.5 | 109.2 | 107.2 |
| 1978 Base | | | | | 100.0 | 100.6 | 98.8 |
| 1979 Base | | | | | | 100.0 | 98.2 |
| 3.(a)Industrial Production - Including Oil (in Constant Prices) | | | | | | | |
| 1974 Base | 100.0 | 95.1 | 97.0 | 100.8 | 104.4 | 107.0 | 99.8 |
| 1975 Base | | 100.0 | 102.0 | 106.0 | 109.8 | 112.6 | 105.0 |
| 1978 Base | | | | | 100.0 | 102.6 | 95.6 |
| 1979 Base | | | | | | 100.0 | 93.3 |
| (b)Industrial Production - Excluding Oil (in Constant Prices) | | | | | | | |
| 1974 Base | 100.0 | 95.1 | 95.7 | 97.0 | 99.0 | 99.1 | 91.7 |
| 1975 Base | | 100.0 | 100.7 | 102.0 | 104.1 | 104.3 | 96.5 |
| 1978 Base | | | | | 100.0 | 100.2 | 92.7 |
| 1979 Base | | | | | | 100.0 | 92.5 |
| 4. Consumers Expenditure (in Constant Prices) | | | | | | | |
| 1974 Base | 100.0 | 99.3 | 99.6 | 99.0 | 104.9 | 109.8 | 110.5 |
| 1975 Base | | 100.0 | 100.3 | 99.7 | 105.7 | 110.6 | 111.3 |
| 1978 Base | | | | | 100.0 | 104.7 | 105.3 |
| 1979 Base | | | | | | 100.0 | 100.6 |

Notes

1. Each index represents the average value for each year with each 'base' year equalling 100 and representing the actual average value for that year.
2. The 'Expenditure Based' G.D.P. index has been used since it was adopted by the B.R.B. for corporate planning purposes.

Appendix 1 (d)

British Railways Board

Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1985, 1988 and 1989 (in Constant Prices). £m



| Receipts(including Ancillary Income) | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. - Passenger - 1974 Plan | 346 | | 384 | 403 | 425 | 453 | 475 | 495 | | | | 584 | | |
| - 1975 Review | | 457 | 479 | 503 | 523 | 549 | 571 | 598 | | | | 688 | | |
| - 1978 Review | | | | | 691 | 715 | 738 | 753 | 778 | 804 | | | 911 | |
| - 1979 Review | | | | | | 793 | 818 | 837 | 858 | 877 | 894 | | | 964 |
| - 1980 Plan | | | | | | | 971 | 1,013 | 1,067 | 1,101 | 1,126 | 1,154 | | |
| 2. - Freight - 1974 Plan | 243 | | 250 | 253 | 260 | 261 | 260 | 260 | | | | 269 | | |
| - 1975 Review | | 294 | 314 | 330 | 341 | 342 | 345 | 347 | | | | 354 | | |
| - 1978 Review | | | | | 424 | 446 | 457 | 465 | 473 | 481 | | | 469 | |
| - 1979 Review | | | | | | 461 | 471 | 483 | 492 | 502 | 511 | | | 515 |
| - 1980 Plan | | | | | | | 493 | 489 | 510 | 524 | 538 | 553 | | |
| 3. - Parcels - 1974 Plan | 78 | | 73 | 74 | 76 | 78 | 80 | 82 | | | | 87 | | |
| - 1975 Review | | 93 | 97 | 94 | 96 | 99 | 101 | 103 | | | | 107 | | |
| - 1978 Review | | | | | 123 | 119 | 118 | 118 | 120 | 120 | | | 117 | |
| - 1979 Review | | | | | | 125 | 125 | 125 | 126 | 126 | 127 | | | 123 |
| - 1980 Plan | | | | | | | 144 | 119 | 113 | 113 | 113 | 111 | | |
| 4. - Total - 1974 Plan | 667 | | 707 | 730 | 761 | 792 | 815 | 837 | | | | 940 | | |
| - 1975 Review | | 844 | 890 | 927 | 960 | 990 | 1,017 | 1,048 | | | | 1,149 | | |
| - 1978 Review | | | | | 1,238 | 1,280 | 1,313 | 1,336 | 1,371 | 1,405 | | | 1,497 | |
| - 1979 Review | | | | | | 1,379 | 1,414 | 1,445 | 1,476 | 1,505 | 1,532 | | | 1,602 |
| - 1980 Plan | | | | | | | 1,608 | 1,621 | 1,690 | 1,738 | 1,777 | 1,818 | | |
| 5. Deduct Working Expenses (including Interest) | | | | | | | | | | | | | | |
| - 1974 Plan | 867 | | 997 | 1,033 | 1,094 | 1,089 | 1,112 | 1,146 | | | | 1,268 | | |
| - 1975 Review | | 1,255 | 1,284 | 1,339 | 1,369 | 1,401 | 1,431 | 1,448 | | | | 1,583 | | |
| - 1978 Review | | | | | 1,674 | 1,691 | 1,685 | 1,702 | 1,713 | 1,722 | | | 1,815 | |
| - 1979 Review | | | | | | 1,883 | 1,925 | 1,978 | 1,989 | 2,001 | 2,045 | | | 2,131 |
| - 1980 Plan | | | | | | | 2,312 | 2,244 | 2,282 | 2,267 | 2,306 | 2,312 | | |

Note

1. This statement continues on Page 2.

British Railways Board

## Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1985, 1988 and 1989 (in Constant Prices).

£m



| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6. Profit/(Loss) before Grants * | | | | | | | | | | | | | | |
| - 1974 Plan | (200) | | (290) | (303) | (333) | (297) | (297) | (309) | | | | (328) | | |
| - 1975 Review | | (411) | (394) | (412) | (409) | (411) | (414) | (400) | | | | (434) | | |
| - 1978 Review | | | | | (436) | (411) | (372) | (366) | (342) | (317) | | | (318) | |
| - 1979 Review | | | | | | (504) | (511) | (533) | (513) | (496) | (513) | | | (529) |
| - 1980 Plan | | | | | | | (704) | (623) | (592) | (529) | (529) | (494) | | |
| 7. P.S.O.Grant (including P.T.E.) | | | | | | | | | | | | | | |
| - 1974 Plan | | | 287 | 306 | 334 | 309 | 317 | 332 | | | | 363 | | |
| - 1975 Review | | 343 | 353 | 373 | 396 | 404 | 420 | 428 | | | | 481 | | |
| - 1978 Review | | | | | 443 | 451 | 438 | 451 | 445 | 441 | | | 493 | |
| - 1979 Review | | | | | | 502 | 515 | 565 | 560 | 552 | 576 | | | 633 |
| - 1980 Plan | | | | | | | 635 | 608 | 628 | 615 | 630 | 630 | | |
| 8. Non - Passenger Grant | | | | | | | | | | | | | | |
| - 1974 Plan | | | NIL | NIL | | | | | | | | | | |
| - 1975 Review | | NIL | NIL | NIL | | | | | | | | | | |
| 9. Profit/(Loss) after Grants | | | | | | | | | | | | | | |
| Passenger - 1974 Plan | | | | | | | | | | | | | | |
| - 1975 Review | | | | | | | | | | | | | | |
| - 1978 Review | | | | | | | | | | | | | | |
| - 1979 Review | | | | | | | | | | | | | | |
| - 1980 Plan | | | | | | | (26) | | | | | | | |
| 10. Non-Passenger- 1974 Plan | 3 | | (3) | 3 | 1 | 12 | 20 | 23 | | | | 35 | | |
| - 1975 Review | | (68) | (41) | (39) | (13) | (7) | 6 | 28 | | | | 47 | | |
| - 1978 Review | | | | | 7 | 40 | 66 | 85 | 103 | 124 | | | 175 | |
| - 1979 Review | | | | | | (2) | 4 | 32 | 47 | 56 | 63 | | | 104 |
| - 1980 Plan | | | | | | | (43) | (15) | 36 | 86 | 101 | 136 | | |
| 11. 1974 Profit/(Loss) before Passenger Grants (on P.S.O.basis) | | | | | | | | | | | | | | |
| - 1974 Plan | (203) | | | | | | | | | | | | | |

Notes
2. * This refers only to the P.S.O. Grant and the Non-Passenger Deficit Grant (where applicable).
3. Each row of forecasts is at the average price level of the first year recorded. In each case the first year's figures (Base Year) normally represent the budget for that year, including an estimate for price increases anticipated in that year. However, in respect of the 1979 Review and the 1980 Plan, the B.R.B. used a later update of the budget in finalising the forecasts.
4. The sum of rows 7,8,9,10 and 11, for each Plan/Review, equates to the forecasts given in row 6 on this page.

British Railways Board

Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1985, 1988 and 1989 (in Constant Prices). £m



| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Causes of Change - 1974 Plan** | | | | | | | | | | | | | | |
| Real Price Levels of Receipts | Base | | | | | | | | | | | | | |
| 12. - Passenger | | | B 6 | B 9 | B 12 | B 15 | B 18 | B 22 | | | | B 41 | | |
| 13. - Freight | | | B 11 | B 13 | B 15 | B 17 | B 21 | B 24 | | | | B 38 | | |
| 14. - Parcels | | | | | B 1 | B 1 | B 2 | B 2 | | | | B 4 | | |
| 15. - Total | | | B 17 | B 22 | B 28 | B 33 | B 41 | B 48 | | | | B 83 | | |
| 16. Real Price Levels of Working Expenses * | | | W 74 | W 92 | W 102 | W 111 | W 130 | W 150 | | | | W 196 | | |
| 17. Net Real Price Changes in Profit/(Loss) before Grants | | | W 57 | W 70 | W 74 | W 78 | W 89 | W 102 | | | | W 113 | | |
| Volume of Receipts | | | | | | | | | | | | | | |
| 18. - Passenger | | | B 32 | B 48 | B 67 | B 92 | B 111 | B 127 | | | | B 197 | | |
| 19. - Freight | | | W 4 | W 3 | B 2 | B 1 | W 4 | W 7 | | | | W 12 | | |
| 20. - Parcels | | | W 5 | W 4 | W 3 | W 1 | | B 2 | | | | B 5 | | |
| 21. - Total | | | B 23 | B 41 | B 66 | B 92 | B 107 | B 122 | | | | B 190 | | |
| 22. Volume of Working Expenses | | | W 56 | W 74 | W 125 | W 111 | W 115 | W 129 | | | | W 205 | | |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | W 33 | W 33 | W 59 | W 19 | W 8 | W 7 | | | | W 15 | | |
| **Causes of Change - 1975 Review** | | | | | | | | | | | | | | |
| Real Price Levels of Receipts | | Base | | | | | | | | | | | | |
| 12. - Passenger | | | B 14 | B 30 | B 33 | B 37 | B 40 | B 43 | | | | B 55 | | |
| 13. - Freight | | | B 19 | B 24 | B 34 | B 41 | B 50 | B 54 | | | | B 53 | | |
| 14. - Parcels | | | B 1 | B 1 | B 1 | B 2 | B 3 | B 3 | | | | B 6 | | |
| 15. - Total | | | B 34 | B 55 | B 68 | B 80 | B 93 | B 100 | | | | B 114 | | |
| 16. Real Price Levels of Working Expenses * | | | W 11 | W 34 | W 39 | W 64 | W 89 | W 113 | | | | W 205 | | |
| 17. Net Real Price Changes in Profit/(Loss) Before Grants | | | B 23 | B 21 | B 29 | B 16 | B 4 | W 13 | | | | W 91 | | |
| Volume of Receipts | | | | | | | | | | | | | | |
| 18. - Passenger | | | B 8 | B 16 | B 33 | B 55 | B 74 | B 98 | | | | B 176 | | |
| 19. - Freight | | | B 1 | B 12 | B 13 | B 7 | B 1 | W 1 | | | | B 7 | | |
| 20. - Parcels | | | B 3 | - | B 2 | B 4 | B 5 | B 7 | | | | B 8 | | |
| 21. - Total | | | B 12 | B 28 | B 48 | B 66 | B 80 | B 104 | | | | B 191 | | |
| 22. Volume of Working Expenses | | | W 18 | W 50 | W 75 | W 82 | W 87 | W 80 | | | | W 123 | | |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | W 6 | W 22 | W 27 | W 16 | W 7 | B 24 | | | | B 68 | | |

Notes 1. B = Better W = Worse 2. All changes are cumulative on the base year. 3. * These relate only to staff costs.

## Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1985, 1988 and 1989 (in Constant Prices).

£m



| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Causes of Change - 1978 Review** | | | | | Base | | | | | | | | | |
| Real Price Levels of Receipts | | | | | | | | | | | | | | |
| 12. - Passenger | | | | | | B 6 | B 10 | B 14 | B 19 | B 25 | | | B 54 | |
| 13. - Freight | | | | | | B 4 | B 13 | B 22 | B 27 | B 33 | | | B 47 | |
| 14. - Parcels | | | | | | B 2 | B 2 | B 1 | B 1 | - | | | - | |
| 15. - Total | | | | | | B 12 | B 25 | B 37 | B 47 | B 58 | | | B 101 | |
| 16. Real Price Levels of Working Expenses * | | | | | | W 21 | W 41 | W 66 | W 93 | W 120 | | | W 260 | |
| 17. Net Real Price Changes in Profit/(Loss) before Grants | | | | | | W 9 | W 16 | W 29 | W 46 | W 62 | | | W 159 | |
| Volume of Receipts | | | | | | | | | | | | | | |
| 18. - Passenger | | | | | | B 18 | B 37 | B 48 | B 68 | B 88 | | | B 166 | |
| 19. - Freight | | | | | | B 18 | B 20 | B 19 | B 22 | B 24 | | | W 2 | |
| 20. - Parcels | | | | | | W 6 | W 7 | W 6 | W 4 | W 3 | | | W 6 | |
| 21. - Total | | | | | | B 30 | B 50 | B 61 | B 86 | B 109 | | | B 158 | |
| 22. Volume of Working Expenses | | | | | | B 4 | B 30 | B 38 | B 54 | B 72 | | | B 119 | |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | | | | B 34 | B 80 | B 99 | B 140 | B 181 | | | B 277 | |
| **Causes of Change - 1979 Review** | | | | | | Base | | | | | | | | |
| Real Price Levels of Receipts | | | | | | | | | | | | | | |
| 12. - Passenger | | | | | | | B 5 | B 9 | B 14 | B 20 | B 26 | | | B 50 |
| 13. - Freight | | | | | | | B 1 | B 8 | B 13 | B 21 | B 25 | | | B 35 |
| 14. - Parcels | | | | | | | B 1 | B 1 | B 1 | B 1 | B 1 | | | B 1 |
| 15. - Total | | | | | | | B 7 | B 18 | B 28 | B 42 | B 52 | | | B 86 |
| 16. Real Price Levels of Working Expenses * | | | | | | | W 35 | W 48 | W 77 | W 120 | W 154 | | | W 319 |
| 17. Net Real Price Changes in Profit/(Loss) before Grants | | | | | | | W 28 | W 30 | W 49 | W 78 | W 102 | | | W 233 |
| Volume of Receipts | | | | | | | | | | | | | | |
| 18. - Passenger | | | | | | | B 20 | B 35 | B 51 | B 64 | B 75 | | | B 121 |
| 19. - Freight | | | | | | | B 9 | B 14 | B 18 | B 20 | B 25 | | | B 19 |
| 20. - Parcels | | | | | | | W 1 | W 1 | - | - | B 1 | | | W 3 |
| 21. - Total | | | | | | | B 28 | B 48 | B 69 | B 84 | B 101 | | | B 137 |
| 22. Real Price Levels of Working Expenses | | | | | | | W 7 | W 47 | W 29 | B 2 | W 8 | | | B 71 |
| 23. Net Real Price Changes in Profit/(Loss) before Grants | | | | | | | B 21 | B 1 | B 40 | B 86 | B 93 | | | B 208 |

Notes
1. B = Better W = Worse
2. All changes are cumulative on the base year.
3. * These relate only to staff costs (1978 Review) and only staff costs plus traction fuel (1979 Review).

Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1985, 1988 and 1989 (in Constant Prices).

£m



| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Causes of Change - 1980 Review | | | | | | | Base | | | | | | | |
| Real Price Levels of Receipts | | | | | | | | | | | | | | |
| 12. - Passenger | | | | | | | | B 17 | B 28 | B 37 | B 46 | B 55 | | |
| 13. - Freight | | | | | | | | - | - | B 1 | B 1 | B 2 | | |
| 14. - Parcels | | | | | | | | - | - | - | - | - | | |
| 15. - Total | | | | | | | | B 17 | B 28 | B 38 | B 47 | B 57 | | |
| 16. Real Price Levels of Working Expenses * | | | | | | | | B 18 | W 2 | W 25 | W 76 | W 123 | | |
| 17. Net Real Price Changes in Profit/(Loss) before Grants | | | | | | | | B 35 | B 26 | B 13 | W 29 | W 66 | | |
| Volume of Receipts | | | | | | | | | | | | | | |
| 18. - Passenger | | | | | | | | B 25 | B 68 | B 93 | B 109 | B 128 | | |
| 19. - Freight | | | | | | | | W 4 | B 17 | B 30 | B 44 | B 58 | | |
| 20. - Parcels | | | | | | | | W 25 | W 31 | W 31 | W 31 | W 33 | | |
| 21. - Total | | | | | | | | W 4 | B 54 | B 92 | B 122 | B 153 | | |
| 22. Volume of Working Expenses | | | | | | | | B 50 | B 32 | B 70 | B 82 | B 123 | | |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | | | | | | B 46 | B 86 | B 162 | B 204 | B 276 | | |

Notes

1. B = Better W = Worse
2. All changes are cumulative on the base year.
3. * These relate only to staff costs and traction fuel.

British Railways Board

Railways Business Plans/Reviews - Investment Forecasts 1974 to 1985, 1988 and 1989 (in Constant Prices). £m

Appendix 2 (b)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Revenue Investment (charged to Working Expenses) | | | | | | | | | | | | | | |
| - 1974 Plan | 70 | 102 | 111 | 123 | 155 | 147 | 147 | 147 | 143 | 143 | 146 | 147 | | |
| - 1975 Review | | 85 | 90 | 104 | 122 | 124 | 134 | 142 | 136 | 135 | 140 | 137 | | |
| - 1978 Review | | | | | 167 | 170 | 165 | 172 | 172 | 168 | 168 | 169 | 171 | |
| - 1979 Review | | | | | | 179 | 169 | 195 | 193 | 187 | 194 | 196 | 163 | 163 |
| - 1980 Plan | | | | | | | 122 | 102 | 140 | 153 | 159 | 173 | | |
| 2. Capital Investment | | | | | | | | | | | | | | |
| - 1974 Plan | 90 | 108 | 143 | 151 | 156 | 159 | 182 | 210 | 207 | 197 | 199 | 192 | | |
| - 1975 Review | | 100 | 124 | 123 | 127 | 143 | 156 | 177 | 205 | 231 | 250 | 266 | | |
| - 1978 Review | | | | | 144 | 143 | 148 | 157 | 171 | 204 | 224 | 224 | 227 | |
| - 1979 Review | | | | | | 128 | 147 | 160 | 169 | 204 | 202 | 219 | 212 | 230 |
| - 1980 Plan | | | | | | | 155 | 185 | 199 | 245 | 263 | 257 | | |
| 3. Total Investment | | | | | | | | | | | | | | |
| - 1974 Plan | 160 | 210 | 254 | 274 | 311 | 306 | 329 | 357 | 350 | 340 | 345 | 339 | | |
| - 1975 Review | | 185 | 214 | 227 | 249 | 267 | 290 | 319 | 341 | 366 | 390 | 403 | | |
| - 1978 Review | | | | | 311 | 313 | 313 | 329 | 343 | 372 | 392 | 393 | 398 | |
| - 1979 Review | | | | | | 307 | 316 | 355 | 362 | 391 | 396 | 415 | 375 | 393 |
| - 1980 Plan | | | | | | | 277 | 287 | 339 | 398 | 422 | 430 | | |

Notes

1. In 1980, expenditure on the renewal of Continuous Welded Rail was removed from the Revenue Investment category and became ordinary maintenance expenditure. This adjustment was allowed for in the 1980 Plan only (it had the effect of reducing the forecast Revenue Investment by £78m. in 1980, in 1979 prices).

Appendix 2 (b)

British Railways Board

## Railways Business Plans - Selected Physical Facts Forecasts 1974 to 1985, 1988 and 1989



| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Passenger Miles (000 Millions) | | | | | | | | | | | | | | |
| - 1974 Plan | 19.7 | | 21.0 | 21.7 | 22.5 | 23.6 | 24.4 | 25.2 | | | | 28.3 | | |
| - 1975 Review | | 19.7 | 18.6 | 18.5 | 19.1 | 19.7 | 20.4 | 21.3 | | | | 23.5 | | |
| - 1978 Review | | | | | 18.2 | 18.7 | 19.1 | 19.4 | 19.9 | 20.4 | | | 22.1 | |
| - 1979 Review | | | | | | 19.7 | 20.2 | 20.5 | 20.8 | 21.1 | 21.4 | | | 22.1 |
| - 1980 Plan | | | | | | | 19.8 | 19.8 | 20.3 | 20.6 | 20.8 | 20.9 | | |
| 2. Freight Tonnes ( Millions) | | | | | | | | | | | | | | |
| - 1974 Plan | 184 | | 207 | 209 | 210 | 209 | 208 | 205 | | | | 206 | | |
| - 1975 Review | | 206 | 202 | 210 | 215 | 214 | 214 | 212 | | | | 213 | | |
| - 1978 Review | | | | | 177 | 182 | 184 | 185 | 187 | 189 | | | 187 | |
| - 1979 Review | | | | | | 173 | 178 | 180 | 181 | 183 | 183 | | | 185 |
| - 1980 Plan | | | | | | | 153 | 150 | 155 | 160 | 163 | 166 | | |
| 3. Passenger Loaded Train Miles( Millions) | | | | | | | | | | | | | | |
| - 1974 Plan | 191 | | 194 | 198 | 202 | 203 | 205 | | | | | 214 | | |
| - 1975 Review | | 192 | 198 | 203 | 206 | 208 | 210 | 214 | | | | 219 | | |
| - 1978 Review | | | | | 196 | 199 | 199 | 199 | 201 | 202 | | | 203 | |
| - 1979 Review | | | | | | 202 | 206 | 207 | 209 | 208 | 208 | | | 209 |
| - 1980 Plan | | | | | | | 203 | 203 | N/A | N/A | N/A | 206 | | |
| 4. Freight Loaded Train Miles (Millions) | | | | | | | | | | | | | | |
| - 1974 Plan | 54 | | 52 | 52 | 51 | 50 | 47 | 46 | | | | 44 | | |
| - 1975 Review | | 56 | 52 | 54 | 54 | 54 | 52 | 47 | | | | 43 | | |
| - 1978 Review | | | | | 39 | 37 | 36 | 35 | 34 | 33 | | | 28 | |
| - 1979 Review | | | | | | 38 | 39 | 39 | 40 | 40 | 40 | | | 37 |
| - 1980 Plan | | | | | | | 33 | 33 | N/A | N/A | N/A | 34 | | |
| 5. Parcels Loaded Train Miles (Millions) | | | | | | | | | | | | | | |
| - 1974 Plan | 14 | | 10 | 10 | 10 | 11 | 11 | 12 | | | | 12 | | |
| - 1975 Review | | 14 | 14 | 11 | 10 | 10 | 10 | 11 | | | | 12 | | |
| - 1978 Review | | | | | 12 | 12 | 12 | 12 | 12 | 12 | | | 12 | |
| - 1979 Review | | | | | | 11 | 11 | 11 | 10 | 10 | 10 | | | 8 |
| - 1980 Plan | | | | | | | 11 | 10 | N/A | N/A | N/A | 6 | | |

N.B. - See notes on page 4

## Railways Business Plans/Reviews - Selected Physical Facts Forecasts 1974 to 1985, 1988 and 1989



| | | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6. | **Locomotives (Numbers)** | | | | | | | | | | | | | | |
| | - 1974 Plan | 3,943 | | 3,861 | 3,449 | 3,181 | 3,050 | 2,935 | 2,873 | | | | 2,620 | | |
| | - 1975 Review | | 3,960 | 3,827 | 3,735 | 3,544 | 3,351 | 3,097 | 2,819 | | | | 2,485 | | |
| | - 1978 Review | | | | | 3,510 | 3,330 | 3,170 | 3,047 | 2,929 | 2,810 | | | 2,428 | |
| | - 1979 Review | | | | | | 3,509 | 3,470 | 3,415 | 3,370 | 3,324 | 3,251 | | | 2,716 |
| | - 1980 Plan | | | | | | | 3,407 | 3,199 | N/A | N/A | N/A | 2,973 | | |
| 7. | **Passenger Coaching Vehicles - Locomotive Hauled (Numbers)** | | | | | | | | | | | | | | |
| | - 1974 Plan | 7,097 | | 6,560 | 6,067 | 5,840 | 5,078 | 4,640 | 4,435 | | | | 3,417 | | |
| | - 1975 Review | | 6,590 | 6,232 | 5,874 | 5,316 | 5,036 | 4,733 | 4,320 | | | | 3,087 | | |
| | - 1978 Review | | | | | 6,054 | 5,858 | 5,817 | 5,812 | 5,513 | 5,330 | | | 3,595 | |
| | - 1979 Review | | | | | | 6,240 | 6,220 | 6,084 | 5,984 | 5,641 | 5,417 | | | 4,412 |
| | - 1980 Plan | | | | | | | 6,194 | 5,788 | N/A | N/A | N/A | 5,400 | | |
| 8. | **Passenger Coaching Vehicles - Diesel Multiple Units (Numbers)** | | | | | | | | | | | | | | |
| | - 1974 Plan | 3,394 | | 3,350 | 3,350 | 3,350 | 3,290 | 3,070 | 3,060 | | | | 2,640 | | |
| | - 1975 Review | | 3,427 | 3,427 | 3,427 | 3,431 | 3,431 | 3,327 | 3,171 | | | | 2,779 | | |
| | - 1978 Review | | | | | 3,267 | 3,252 | 3,233 | 3,197 | 3,027 | 2,941 | | | 2,668 | |
| | - 1979 Review | | | | | | 3,274 | 3,251 | 3,198 | 3,122 | 3,063 | 3,022 | | | 2,499 |
| | - 1980 Plan | | | | | | | 3,243 | 3,225 | N/A | N/A | N/A | 2,650 | | |
| 9. | **Passenger Coaching Vehicles - Electric Multiple Units (Numbers)** | | | | | | | | | | | | | | |
| | - 1974 Plan | 7,296 | | 7,533 | 7,657 | 7,736 | 8,178 | 8,364 | 8,540 | | | | 9,471 | | |
| | - 1975 Review | | 7,399 | 7,591 | 7,723 | 7,808 | 7,859 | 8,188 | 8,630 | | | | 9,403 | | |
| | - 1978 Review | | | | | 7,382 | 7,430 | 7,466 | 7,466 | 7,657 | 7,632 | | | 7,905 | |
| | - 1979 Review | | | | | | 7,349 | 7,469 | 7,583 | 7,658 | 7,670 | 7,701 | | | 7,926 |
| | - 1980 Plan | | | | | | | 7,567 | 7,456 | N/A | N/A | N/A | 7,559 | | |
| 10. | **H.S.T. Sets (Numbers)** | | | | | | | | | | | | | | |
| | - 1974 Plan | - | | 45 | 78 | 112 | 146 | 148 | 148 | | | | 148 | | |
| | - 1975 Review | | 7 | 31 | 55 | 80 | 105 | 130 | 151 | | | | 151 | | |
| | - 1978 Review | | | | | 57 | 73 | 85 | 97 | 112 | 115 | | | 115 | |
| | - 1979 Review | | | | | | 61 | 78 | 91 | 100 | 107 | 110 | | | 110 |
| | - 1980 Plan | | | | | | | 73 | 85 | N/A | N/A | N/A | 95 | | |

N.B. - See notes on page 4

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Railways Business Plans/Reviews - Selected Physical Facts Forecasts 1974 to 1985, 1988 and 1989.



| | | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 11. | A.P.T. Sets (Numbers) | | | | | | | | | | | | | | |
| | - 1974 Plan | - | | - | - | 4 | 4 | 4 | 15 | | | | 125 | | |
| | - 1975 Review | | - | - | 1 | 3 | 3 | 3 | 11 | | | | 93 | | |
| | - 1978 Review | | | | | 3 | 3 | 3 | 3 | 16 | 41 | | | 163 | |
| | - 1979 Review | | | | | | 3 | 3 | 3 | 3 | 9 | 18 | | | 86 |
| | - 1980 Plan | | | | | | | 3 | 3 | N/A | N/A | N/A | 40 | | |
| 12. | Freight Vehicles (000's) | | | | | | | | | | | | | | |
| | - 1974 Plan | 235 | | 208 | 188 | 165 | 151 | 136 | 120 | | | | 72 | | |
| | - 1975 Review | | 230 | 213 | 195 | 176 | 161 | 147 | 134 | | | | 96 | | |
| | - 1978 Review | | | | | 153 | 145 | 137 | 130 | 122 | 111 | | | 49 | |
| | - 1979 Review | | | | | | 135 | 124 | 109 | 100 | 94 | 86 | | | 41 |
| | - 1980 Plan | | | | | | | 125 | 80 | N/A | N/A | N/A | 62 | | |
| 13. | Parcels Coaching Vehicles (Numbers) | | | | | | | | | | | | | | |
| | - 1974 Plan | 5,420 | 5,320 | 4,832 | 4,382 | 4,086 | 3,882 | 3,707 | 3,612 | | | | 3,480 | | |
| | - 1975 Review | | 5,456 | 5,400 | 4,859 | 4,705 | 4,255 | 4,005 | 3,903 | | | | 3,751 | | |
| | - 1978 Review | | | | | 4,534 | 4,438 | 4,366 | 4,348 | 4,345 | 4,333 | | | 4,279 | |
| | - 1979 Review | | | | | | 4,589 | 4,452 | 4,300 | 4,275 | 4,249 | 4,229 | | | 1,901 |
| | - 1980 Plan | | | | | | | 4,455 | 2,500 | N/A | N/A | N/A | 1,800 | | |
| 14. | Manpower - Requirement (000's) | | | | | | | | | | | | | | |
| | - 1974 Plan | 205.6 | | 199.7 | 198.1 | 201.4 | 195.9 | 191.1 | 187.8 | | | | 187.8 | | |
| | - 1975 Review | | 208.8 | 207.7 | 203.9 | 203.9 | 199.4 | 193.2 | 186.8 | | | | 182.6 | | |
| | - 1978 Review | | | | | 191.5 | 184.7 | 179.4 | 174.0 | 169.4 | 165.5 | | | 153.7 | |
| | - 1979 Review | | | | | | 193.7 | 186.8 | 180.8 | 176.5 | 172.6 | 169.5 | | | 158.7 |
| | - 1980 Plan | | | | | | | 191.3 | 183.1 | 172.6 | 166.8 | 158.5 | 153.0 | | |
| 15. | Manpower Estimated Actual (000's) | | | | | | | | | | | | | | |
| | - 1974 Plan | | | | N o t | | p r o d u c e d | | | | | | | | |
| | - 1975 Review | | 197.4 | 197.0 | 195.1 | 196.0 | 192.8 | 187.7 | 182.7 | | | | 178.3 | | |
| | - 1978 Review | | | | | 175.5 | 169.4 | 165.3 | 161.0 | 157.4 | 154.4 | | | 143.6 | |
| | - 1979 Review | | | | | | 178.7 | 173.3 | 168.7 | 165.4 | 162.6 | 159.8 | | | 149.7 |
| | - 1980 Plan | | | | | | | 175.6 | 170.3 | 162.2 | 157.2 | 146.7 | 144.6 | | |

N.B. - See notes on page 4

## Railways Business Plans/Reviews - Selected Physical Facts Forecasts 1974 to 1985, 1988 and 1989



| | | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16. | Route Miles ( 000's) | | | | | | | | | | | | | | |
| | - 1974 Plan | 11.2 | | 11.2 | 11.1 | 11.1 | 11.1 | 11.1 | 11.1 | | | | 10.9 | 10.9 | |
| | - 1975 Review | | 11.2 | 11.2 | 11.2 | 11.2 | 11.1 | 11.0 | 11.0 | | | | 10.9 | 10.9 | |
| | - 1978 Review | | | | | 11.1 | 11.1 | 11.1 | 11.0 | 10.8 | 10.7 | | | 10.2 | |
| | - 1979 Review | | | | | | 11.1 | 11.1 | 11.0 | 11.0 | 10.8 | 10.5 | | | 10.0 |
| | - 1980 Plan | | | | | | | 11.1 | 10.9 | 10.8 | 10.8 | 10.8 | 10.8 | | |
| | of which electrified ( 000's) | | | | | | | | | | | | | | |
| | - 1974 Plan | 2.0 | | 2.0 | 2.1 | 2.1 | 2.2 | 2.4 | 2.5 | | | | 2.9 | | |
| | - 1975 Review | | 2.0 | 2.0 | 2.0 | 2.1 | 2.2 | 2.3 | 2.5 | | | | 2.9 | | |
| | - 1978 Review | | | | | 2.4 | 2.4 | 2.4 | 2.5 | 2.5 | 2.6 | | | 2.8 | |
| | - 1979 Review | | | | | | 2.4 | 2.4 | 2.4 | 2.4 | 2.5 | 2.5 | | | 2.8 |
| | - 1980 Plan | | | | | | | 2.3 | 2.3 | 2.4 | 2.4 | 2.5 | 2.7 | | |
| 17. | Track Miles ( 000's) | | | | | | | | | | | | | | |
| | - 1974 Plan | 28.7 | | 28.2 | 28.0 | 27.8 | 27.7 | 27.7 | 27.5 | | | | 27.0 | 27.0 | |
| | - 1975 Review | | 28.6 | 28.3 | 28.1 | 28.0 | 27.8 | 27.6 | 27.5 | | | | 27.0 | 27.0 | |
| | - 1978 Review | | | | | 27.8 | 27.4 | 27.1 | 26.8 | 26.3 | 25.9 | | | 23.7 | |
| | - 1979 Review | | | | | | 27.2 | 26.9 | 26.6 | 26.2 | 25.8 | 25.3 | | | 23.9 |
| | - 1980 Plan | | | | | | | 26.5 | 26.1 | 25.9 | 25.7 | 25.4 | 25.1 | | |

Notes

1. All resources relate to the forecast year-end situation, except for the relating to the 1980 Plan which are 'equated' forecasts relating to the approximate mid-year situation.
2. N/A = Not Available.

British Railways Board

Railways Business - Selected Physical Facts Forecasts 1974 to 1985, 1988 and 1989



| (000 Millions) | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Analysis of Passenger Miles by Sector** | | | | | | | | | | | | | | |
| 1. 1974 Plan | | | | | | | | | | | | | | |
| Inter - City | 8.5 | | 9.0 | 9.4 | 9.9 | 10.6 | 11.1 | 11.7 | | | | 13.8 | | |
| L. & S.E. | 8.4 | | 9.1 | 9.4 | 9.6 | 9.9 | 10.1 | 10.0 | | | | 10.6 | | |
| P.T.E. | 1.7 | | 1.8 | 1.8 | 1.9 | 2.0 | 2.1 | 2.4 | | | | 2.7 | | |
| Other Provincial | 1.1 | | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | | | | 1.2 | | |
| Total | 19.7 | | 21.0 | 21.7 | 22.5 | 23.6 | 24.4 | 25.2 | | | | 28.3 | | |
| 2. 1975 Review | | | | | | | | | | | | | | |
| Inter - City | | 8.5 | 8.0 | 8.0 | 8.4 | 8.8 | 9.2 | 9.6 | | | | 11.0 | | |
| L. & S.E. | | 8.4 | 8.0 | 7.9 | 7.9 | 8.0 | 8.2 | 8.4 | | | | 8.8 | | |
| P.T.E. / Other Provincial | | 2.8 | 2.6 | 2.6 | 2.8 | 2.9 | 3.0 | 3.3 | | | | 3.7 | | |
| Total | | 19.7 | 18.6 | 18.5 | 19.1 | 19.7 | 20.4 | 21.3 | | | | 23.5 | | |
| 3. 1978 Review | | | | | | | | | | | | | | |
| Inter - City | | | | | 8.5 | 9.0 | 9.3 | 9.6 | 10.0 | 10.4 | | | 11.8 | |
| L. & S.E. | | | | | 7.2 | 7.1 | 7.2 | 7.2 | 7.3 | 7.4 | | | 7.6 | |
| P.T.E. | | | | | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | | | 1.8 | |
| Other Provincial | | | | | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | | | 0.9 | |
| Total | | | | | 18.2 | 18.7 | 19.1 | 19.4 | 19.9 | 20.4 | | | 22.1 | |
| 4. 1979 Review | | | | | | | | | | | | | | |
| Inter - City | | | | | | 9.4 | 9.7 | 9.9 | 10.2 | 10.5 | 10.7 | | | 11.4 |
| L. & S.E. | | | | | | 7.6 | 7.7 | 7.7 | 7.7 | 7.8 | 7.9 | | | 7.9 |
| P.T.E. | | | | | | 1.7 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 | | | 1.9 |
| Other Provincial | | | | | | 1.0 | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | | | 0.9 |
| Total | | | | | | 19.7 | 20.2 | 20.5 | 20.8 | 21.1 | 21.4 | | | 22.1 |
| 5. 1980 Plan | | | | | | | | | | | | | | |
| Inter - City | | | | | | | 9.4 | 9.5 | 10.0 | 10.2 | 10.5 | 10.7 | | |
| L. & S.E. | | | | | | | 7.6 | 7.5 | 7.5 | 7.6 | 7.5 | 7.4 | | |
| P.T.E. | | | | | | | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | | |
| Other Provincial | | | | | | | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | | |
| Total | | | | | | | 19.8 | 19.8 | 20.3 | 20.6 | 20.8 | 20.9 | | |

Notes 1. L.& S.E. - London and South East. 2. P.T.E. = Passenger Transport Executive

Appendix 2(c) - Page 6

## Railways Business - Selected Physical Facts Forecasts 1974 to 1985, 1988 and 1989



| (Millions) | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Analysis of Freight Tonnes by Sector** | | | | | | | | | | | | | | |
| 1. 1974 Plan | | | | | | | | | | | | | | |
| Trainload | 141 | | 163 | 167 | 169 | 170 | 172 | 172 | | | | 181 | | |
| Wagonload | 43 | | 44 | 42 | 41 | 39 | 36 | 33 | | | | 25 | | |
| Total | 184 | | 207 | 209 | 210 | 209 | 208 | 205 | | | | 206 | | |
| 2. 1975 Review | | | | | | | | | | | | | | |
| Trainload | | 162 | 160 | 167 | 171 | 173 | 175 | 178 | | | | 187 | | |
| Wagonload | | 44 | 42 | 43 | 44 | 41 | 39 | 34 | | | | 26 | | |
| Total | | 206 | 202 | 210 | 215 | 214 | 214 | 212 | | | | 213 | | |
| 3. 1978 Review | | | | | | | | | | | | | | |
| Trainload | | | | | 149 | 153 | 156 | 158 | 161 | 164 | | | 171 | |
| Wagonload | | | | | 25 | 25 | 23 | 21 | 19 | 17 | | | 7 | |
| Speedlink | | | | | 3 | 4 | 5 | 6 | 7 | 8 | | | 9 | |
| Total | | | | | 177 | 182 | 184 | 185 | 187 | 189 | | | 187 | |
| 4. 1979 Review | | | | | | | | | | | | | | |
| Trainload | | | | | | 148 | 154 | 157 | 159 | 161 | 162 | | | 171 |
| Wagonload | | | | | | 22 | 20 | 17 | 16 | 15 | 14 | | | 4 |
| Speedlink | | | | | | 3 | 4 | 6 | 6 | 7 | 7 | | | 10 |
| Total | | | | | | 173 | 178 | 180 | 181 | 183 | 183 | | | 185 |
| 5. 1980 Plan | | | | | | | | | | | | | | |
| Trainload | | | | | | | 135 | 132 | 137 | 142 | 144 | 147 | | |
| Wagonload | | | | | | | 15 | 14 | 13 | 11 | 10 | 9 | | |
| Speedlink | | | | | | | 3 | 4 | 5 | 7 | 9 | 10 | | |
| Total | | | | | | | 153 | 150 | 155 | 160 | 163 | 166 | | |

British Railways Board — Railways Business Plans/Reviews - Main Planning Assumptions/Forecasts 1974 to 1975, 1988 and 1989 — Appendix 2 (d)

Macro - Economic Indices - All Cumulative on Base Year

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Inflation - Retail Price Index** | | | | | | | | | | | | | | |
| - 1974 Plan | 100.0 | 111.0 | 121.0 | 132.0 | 144.0 | 157.0 | 171.0 | 186.0 | | | | 263.0 | | |
| - 1975 Review | | 100.0 | 117.0 | 132.8 | 148.7 | 165.1 | 181.6 | 199.8 | | | | 292.5 | | |
| - 1978 Review | | | | | 100.0 | 112.0 | 123.2 | 134.3 | 146.4 | 156.7 | | | 219.7 | |
| - 1979 Review | | | | | | 100.0 | 110.0 | 119.9 | 130.6 | 139.8 | 149.5 | | | 209.7 |
| - 1980 Plan | | | | | | | 100.0 | 111.9 | 123.2 | 134.3 | 146.4 | 158.0 | | |
| **2. Gross Domestic Product(in Constant Prices)** | | | | | | | | | | | | | | |
| - 1974 Plan | 100.0 | 103.5 | 106.2 | 109.7 | 114.9 | 118.1 | 120.7 | 124.3 | | | | 141.4 | | |
| - 1975 Review | | 100.0 | 100.8 | 103.3 | 106.4 | 109.4 | 111.7 | 115.0 | | | | 128.4 | | |
| - 1978 Review | | | | | 100.0 | 103.0 | 105.9 | 108.0 | 110.7 | 113.8 | | | 130.7 | |
| - 1979 Review | | | | | | 100.0 | 103.0 | 105.9 | 108.1 | 110.7 | 114.0 | | | 131.1 |
| - 1980 Plan | | | | | | | 100.0 | 102.0 | 104.0 | 105.6 | 107.8 | 109.4 | | |
| **3.(a)Industrial Production - Including Oil (in Constant Prices)** | | | | | | | | | | | | | | |
| - 1974 Plan | 100.0 | 104.5 | 107.3 | 111.2 | 117.4 | 120.9 | 123.5 | 127.6 | | | | 146.4 | | |
| - 1975 Review | | 100.0 | 100.0 | 102.7 | 106.2 | 109.4 | 111.7 | 115.4 | | | | 129.9 | | |
| - 1978 Review | | | | | 100.0 | 103.5 | 106.6 | 109.3 | 112.6 | 115.9 | | | 134.4 | |
| - 1979 Review | | | | | | 100.0 | 103.5 | 107.1 | 109.8 | 113.1 | 117.1 | | | 136.4 |
| - 1980 Plan | | | | | | | 100.0 | 102.5 | 105.6 | 107.7 | 110.4 | 112.1 | | |
| **3.(b)Industrial Production - Excluding Oil (in Constant Prices)** | | | | | | | | | | | | | | |
| - 1980 Plan | | | | | | | 100.0 | 101.4 | 103.5 | 104.9 | 107.3 | 108.9 | | |
| **4. Consumers' Expenditure(in Constant Prices)** | | | | | | | | | | | | | | |
| - 1974 Plan | 100.0 | 102.6 | 104.9 | 107.7 | 112.0 | 115.0 | 117.1 | 120.0 | | | | 134.9 | | |
| - 1975 Review | | 100.0 | 100.5 | 102.9 | 105.8 | 108.6 | 110.6 | 113.3 | | | | 125.1 | | |
| - 1978 Review | | | | | 100.0 | 102.5 | 105.0 | 107.1 | 109.2 | 111.9 | | | 126.7 | |
| - 1979 Review | | | | | | 100.0 | 102.7 | 105.0 | 107.2 | 109.9 | 112.6 | | | 127.4 |
| - 1980 Plan | | | | | | | 100.0 | 101.5 | 103.5 | 106.1 | 109.8 | 110.8 | | |

Appendix 2 (d)

Notes

1. Each index represents the average value for each year with each base year equalling 100 and representing the B.R.B. forecast of the average value for that year.
2. The Gross Domestic Product forecasts are Expenditure Based.

British Railways Board

Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1981(in Estimated Actual Prices £m



| Receipts(including Ancillary Income) | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| 1. - Passenger - 1974 Plan | 346 | | 465 | 532 | 612 | 711 | 812 | 921 |
| - 1975 Review | | 457 | 560 | 668 | 779 | 906 | 1,039 | 1,196 |
| - 1978 Review | | | | | 691 | 801 | 909 | 1,011 |
| - 1979 Review | | | | | | 793 | 900 | 1,004 |
| - 1980 Plan | | | | | | | 971 | 1,134 |
| 2. - Freight - 1974 Plan | 243 | | 303 | 334 | 374 | 410 | 444 | 484 |
| - 1975 Review | | 294 | 368 | 439 | 508 | 565 | 627 | 694 |
| - 1978 Review | | | | | 424 | 500 | 564 | 625 |
| - 1979 Review | | | | | | 461 | 518 | 579 |
| - 1980 Plan | | | | | | | 493 | 547 |
| 3. - Parcels - 1974 Plan | 78 | | 88 | 98 | 110 | 122 | 137 | 152 |
| - 1975 Review | | 93 | 113 | 125 | 143 | 163 | 184 | 206 |
| - 1978 Review | | | | | 123 | 133 | 145 | 159 |
| - 1979 Review | | | | | | 125 | 137 | 150 |
| - 1980 Plan | | | | | | | 144 | 133 |
| 4. - Total - 1974 Plan | 667 | | 856 | 964 | 1,096 | 1,243 | 1,393 | 1,557 |
| - 1975 Review | | 844 | 1,041 | 1,232 | 1,430 | 1,634 | 1,850 | 2,096 |
| - 1978 Review | | | | | 1,238 | 1,434 | 1,618 | 1,795 |
| - 1979 Review | | | | | | 1,379 | 1,555 | 1,733 |
| - 1980 Plan | | | | | | | 1,608 | 1,814 |
| 5.Deduct Working Expenses(including Interest) | | | | | | | | |
| - 1974 Plan | 867 | | 1,198 | 1,350 | 1,553 | 1,683 | 1,863 | 2,085 |
| - 1975 Review | | 1,255 | 1,494 | 1,764 | 2,006 | 2,263 | 2,535 | 2,805 |
| - 1978 Review | | | | | 1,674 | 1,894 | 2,077 | 2,286 |
| - 1979 Review | | | | | | 1,883 | 2,117 | 2,372 |
| - 1980 Plan | | | | | | | 2,312 | 2,511 |
| 6.Profit/(Loss)before Grants * | | | | | | | | |
| - 1974 Plan | (200) | | (342) | (386) | (457) | (440) | (470) | (528) |
| - 1975 Review | | (411) | (453) | (532) | (576) | (629) | (685) | (709) |
| - 1978 Review | | | | | (436) | (460) | (459) | (491) |
| - 1979 Review | | | | | | (504) | (562) | (639) |
| - 1980 Plan | | | | | | | (704) | (697) |

Notes

1. This statement continues on page 2.

2. * This refers only to the P.S.O. Grant and the Non-Passenger Deficit Grant (where applicable.)

British Railways Board

Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1981(in Estimated Actual Prices) £m

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| 7. P.S.O. Grant(including P.T.E.) | | | | | | | | |
| - 1974 Plan | - | | 342 | 396 | 468 | 472 | 522 | 591 |
| - 1975 Review | | 343 | 409 | 489 | 574 | 643 | 731 | 811 |
| - 1978 Review | | | | | 443 | 505 | 540 | 605 |
| - 1979 Review | | | | | | 502 | 566 | 677 |
| - 1980 Plan | | | | | | | 635 | 680 |
| 8. Non - Passenger Grant | | | | | | | | |
| - 1974 Plan | | | NIL | NIL | | | | |
| - 1975 Review | | NIL | NIL | NIL | | | | |
| 9. Profit/(Loss) after Grants | | | | | | | | |
| Passenger- 1974 Plan | | | | | | | | |
| - 1975 Review | | | | | | | | |
| - 1978 Review | | | | | | | | |
| - 1979 Review | | | | | | | | |
| - 1980 Plan | | | | | | | (26) | |
| 10. Non-Passenger-1974 Plan | 3 | | - | 10 | 11 | 32 | 52 | 63 |
| -1975 Review | | (68) | (44) | (43) | (2) | 14 | 46 | 102 |
| -1978 Review | | | | | 7 | 45 | 81 | 114 |
| -1979 Review | | | | | | (2) | 4 | 38 |
| -1980 Plan | | | | | | | (43) | 17 |
| 11. 1974 Profit/(Loss) before Passenger Grants (on P.S.O.basis) | | | | | | | | |
| -1974 Plan | (203) | | | | | | | |

Notes

1. Each row of forecasts is at the estimated actual price level for each year recorded, as seen at the time of producing the forecast. Thus, forecast inflation is allowed for as well as the real price increases included on Appendix 2(a). In each case, the first year's figures (Base Year) normally represent the budget for that year, including an estimate of the price increases anticipated in that year. However,in respect of the 1979 Review and the 1980 Plan, the B.R.B. used a later update of the budget in finalising the forecasts.

2. The sum of rows 7,8,9,10 and 11, for each Plan/Review, equates to the forecasts given in row 6 of page 1.

British Railways Board

Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1981(in Estimated Actual Prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| Causes of Change - 1974 Plan | | | | | | | | |
| Price Levels of Receipts | Base | | | | | | | |
| 12. - Passenger | | | B 80 | B 123 | B 170 | B 221 | B 276 | B 339 |
| 13. - Freight | | | B 65 | B 95 | B 128 | B 165 | B 208 | B 254 |
| 14. - Parcels | | | B 16 | B 25 | B 36 | B 46 | B 59 | B 70 |
| 15. - Total | | | B 161 | B 243 | B 334 | B 432 | B 543 | B 663 |
| 16.Price Level of Working Expenses | | | W 263 | W 385 | W 506 | W 642 | W 799 | W 978 |
| 17.Net Total Price Changes in Profit/(Loss) before Grants | | | W 102 | W 142 | W 172 | W 210 | W 256 | W 315 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | B 39 | B 63 | B 96 | B 144 | B 190 | B 236 |
| 19. - Freight | | | W 5 | W 4 | B 3 | B 2 | W 7 | W 13 |
| 20. - Parcels | | | W 6 | W 5 | W 4 | W 2 | - | B 4 |
| 21. - Total | | | B 28 | B 54 | B 95 | B 144 | B 183 | B 227 |
| 22.Volume of Working Expenses | | | W 68 | W 98 | W 180 | W 174 | W 197 | W 240 |
| 23.Net Volume Change in Profit/(Loss) before Grants | | | W 40 | W 44 | W 85 | W 30 | W 14 | W 13 |
| Causes of Change - 1975 Review | | | | | | | | |
| Price Levels of Receipts | | | | | | | | |
| 12. - Passenger | | Base | B 94 | B 190 | B 273 | B 358 | B 448 | B 543 |
| 13. - Freight | | | B 73 | B 129 | B 195 | B 260 | B 331 | B 402 |
| 14. - Parcels | | | B 16 | B 32 | B 47 | B 63 | B 82 | B 99 |
| 15. - Total | | | B 183 | B 351 | B 515 | B 681 | B 861 | B1044 |
| 16.Price Levels of Working Expenses | | | W 218 | W 443 | W 640 | W 873 | W1122 | W1390 |
| 17.Net Total Price Changes in Profit/(Loss) before Grants | | | W 35 | W 92 | W 125 | W 192 | W 261 | W 346 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | B 9 | B 21 | B 49 | B 91 | B 134 | B 196 |
| 19. - Freight | | | B 1 | B 16 | B 19 | B 11 | B 2 | W 2 |
| 20. - Parcels | | | B 4 | - | B 3 | B 7 | B 9 | B 14 |
| 21. - Total | | | B 14 | B 37 | B 71 | B 109 | B 145 | B 208 |
| 22.Volume of Working Expenses | | | W 21 | W 66 | W 111 | W 135 | W 158 | W 160 |
| 23.Net Volume Changes in Profit/(Loss) before Grants | | | W 7 | W 29 | W 40 | W 26 | W 13 | B 48 |

Notes

1. B = Better W = Worse

2. All changes are cumulative on the base year forecast.

British Railways Board — Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1981 (in Estimated Actual Prices) — £m — Appendix 3 (a) Page 4

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| Causes of Changes - 1978 Review | | | | | Base | | | |
| Price Levels of Receipts | | | | | | | | |
| 12. - Passenger | | | | | | B 90 | B 172 | B 256 |
| 13. - Freight | | | | | | B 56 | B 115 | B 175 |
| 14. - Parcels | | | | | | B 16 | B 31 | B 44 |
| 15. - Total | | | | | | B 162 | B 318 | B 475 |
| 16. Price Levels of Working Expenses | | | | | | W 224 | W 440 | W 663 |
| 17. Net Total Price Changes in Profit/(Loss) before Grants | | | | | | W 62 | W 122 | W 188 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | | | | B 20 | B 46 | B 64 |
| 19. - Freight | | | | | | B 20 | B 25 | B 26 |
| 20. - Parcels | | | | | | W 6 | W 9 | W 8 |
| 21. - Total | | | | | | B 34 | B 62 | B 82 |
| 22. Volume of Working Expenses | | | | | | B 4 | B 37 | B 51 |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | | | | B 38 | B 99 | B 133 |
| Causes of Changes - 1979 Review | | | | | | | | |
| Price Levels of Receipts | | | | | | Base | | |
| 12. - Passenger | | | | | | | B 85 | B 169 |
| 13. - Freight | | | | | | | B 47 | B 102 |
| 14. - Parcels | | | | | | | B 13 | B 26 |
| 15. - Total | | | | | | | B 145 | B 297 |
| 16. Price Levels of Working Expenses | | | | | | | W 226 | W 433 |
| 17. Net Total Price Changes in Profit/(Loss) before Grants | | | | | | | W 81 | W 136 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | | | | | B 22 | B 42 |
| 19. - Freight | | | | | | | B 10 | B 16 |
| 20. - Parcels | | | | | | | W 1 | W 1 |
| 21. - Total | | | | | | | B 31 | B 57 |
| 22. Volume of Working Expenses | | | | | | | W 8 | W 56 |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | | | | | B 23 | B 1 |

Notes 1. B = Better W = Worse. 2. All changes are cumulative on the base year forecast.

British Railways Board — Railways Business Plans/Reviews - Profit and Loss Forecasts 1974 to 1981 (in Estimated Actual Prices) — £m

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| **Causes of Changes - 1980 Plan** | | | | | | | | |
| Price Levels of Receipts | | | | | | | Base | |
| 12. - Passenger | | | | | | | | B 135 |
| 13. - Freight | | | | | | | | B 58 |
| 14. - Parcels | | | | | | | | B 17 |
| 15. - Total | | | | | | | | B 210 |
| 16. Price Levels of Working Expenses | | | | | | | | W 255 |
| 17. Net Total Price Changes in Profit/(Loss) before Grants | | | | | | | | W 45 |
| Volume of Receipts | | | | | | | | |
| 18. - Passenger | | | | | | | | B 28 |
| 19. - Freight | | | | | | | | W 4 |
| 20. - Parcels | | | | | | | | W 28 |
| 21. - Total | | | | | | | | W 4 |
| 22. Volume of Working Expenses | | | | | | | | B 56 |
| 23. Net Volume Changes in Profit/(Loss) before Grants | | | | | | | | B 52 |

Notes

1. B = Better W = Worse
2. All changes are cumulative on the base year forecast.

British Railways Board — Railways Business Plans/Reviews - Investment Forecasts 1974 to 1981 (in Estimated Actual Prices) — £m — Appendix 3 (b)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|
| **1. Revenue Investment (charged to Working Expenses)** | | | | | | | | |
| - 1974 Plan | 70 | 113 | 134 | 162 | 223 | 231 | 251 | 273 |
| - 1975 Review | | 85 | 105 | 138 | 181 | 205 | 243 | 284 |
| - 1978 Review | | | | | 167 | 190 | 203 | 231 |
| - 1979 Review | | | | | | 179 | 186 | 234 |
| - 1980 Plan | | | | | | | 122 | 114 |
| **2. Capital Investment** | | | | | | | | |
| - 1974 Plan | 90 | 120 | 173 | 199 | 225 | 250 | 311 | 391 |
| - 1975 Review | | 100 | 145 | 163 | 189 | 236 | 283 | 353 |
| - 1978 Review | | | | | 144 | 160 | 182 | 211 |
| - 1979 Review | | | | | | 128 | 162 | 192 |
| - 1980 Plan | | | | | | | 155 | 207 |
| **3. Total Investment** | | | | | | | | |
| - 1974 Plan | 160 | 233 | 307 | 361 | 448 | 481 | 562 | 664 |
| - 1975 Review | | 185 | 250 | 301 | 370 | 441 | 526 | 637 |
| - 1978 Review | | | | | 311 | 350 | 385 | 442 |
| - 1979 Review | | | | | | 307 | 348 | 426 |
| - 1980 Plan | | | | | | | 277 | 321 |

Notes

1. In 1980, expenditure on the renewal of Continuous Welded Rail was removed from the Revenue Investment category and became ordinary maintenance expenditure. This adjustment was allowed for in the 1980 Plan only and had the effect of reducing the forecast Revenue Investment by £78m. in 1980, in 1979 prices.

Appendix 3 (b)

British Railways Board

Railways Business - Profit and Loss Results 1974 to 1980 and Forecast 1981
Compared with Plan/Review Forecasts in Estimated Actual Prices

£m



| | Causes of change on 1974 Plan | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| | Price level of Receipts | Base | | | | | | | |
| 12. | - Passenger | W 12 | | B 71 | B 90 | B 117 | B 134 | B 219 | B 281 |
| 13. | - Freight | B 4 | | B 69 | B 91 | B 104 | B 123 | B 169 | B 179 |
| 14. | - Parcels | - | | B 22 | B 32 | B 35 | B 39 | B 53 | B 58 |
| 15. | - Total | W 8 | | B162 | B213 | B 256 | B 296 | B 441 | B 518 |
| 16. | Price level of Working Expenses | W 87 | | W211 | W219 | W 248 | W 335 | W 543 | W 683 |
| 17. | Net Total Price changes in Profit/(Loss)before Grants | W 95 | | W 49 | W 6 | B 8 | W 39 | W 102 | W 165 |
| | Volume of Receipts | | | | | | | | |
| 18. | - Passenger | W 3 | | W 25 | W 22 | W 22 | W 40 | W 69 | W 128 |
| 19. | - Freight | W 23 | | W 44 | W 54 | W 66 | W 69 | W 129 | W 135 |
| 20. | - Parcels | W 2 | | W 12 | W 20 | W 26 | W 29 | W 48 | W 84 |
| 21. | - Total | W 28 | | W 81 | W 96 | W 114 | W 138 | W 246 | W 347 |
| 22. | Volume of Working Expenses | B 7 | | B121 | B149 | B 122 | B 93 | B 104 | B 196 |
| 23. | Net Volume changes in Profit/(Loss) before Grants | W 21 | | B 40 | B 53 | B 8 | W 45 | W 142 | W 151 |
| | Causes of change on 1975 Review | | Base | | | | | | |
| | Price level of Receipts | | | | | | | | |
| 12. | - Passenger | | W 8 | W 27 | W 61 | W 70 | W 87 | W 37 | W 7 |
| 13. | - Freight | | - | W 5 | W 9 | W 29 | W 38 | W 20 | W 35 |
| 14. | - Parcels | | - | B 1 | B 4 | B 3 | B 1 | B 9 | B 8 |
| 15. | - Total | | W 8 | W 31 | W 66 | W 96 | W 124 | W 48 | W 34 |
| 16. | Price level of Working Expenses | | B 49 | B103 | B198 | B 245 | B 255 | B 139 | B 88 |
| 17. | Net Total Price changes in Profit/(Loss)before Grants | | B 41 | B 72 | B132 | B 149 | B 131 | B 91 | B 54 |
| | Volume of Receipts | | | | | | | | |
| 18. | - Passenger | | W 14 | W 22 | W 7 | W 2 | W 14 | W 40 | W 115 |
| 19. | - Freight | | W 32 | W 35 | W 59 | W 67 | W 63 | W 123 | W 131 |
| 20. | - Parcels | | W 5 | W 16 | W 19 | W 27 | W 32 | W 51 | W 88 |
| 21. | - Total | | W 51 | W 73 | W 85 | W 96 | W 109 | W 214 | W 334 |
| 22. | Volume of Working Expenses | | B 35 | B103 | B146 | B 82 | B 83 | B 94 | B 145 |
| 23. | Net Volume changes in Profit/(Loss)before Grants | | W 16 | B 30 | B 61 | W 14 | W 26 | W 120 | W 189 |

N.B. - See Appendix 4 (a) - page 3 for notes.

British Railways Board

Railways Business - Profit and Loss Results 1974 to 1980 and Forecast 1981
Compared with Plan/Review Forecasts in Estimated Actual Prices

£m

| | Causes of change on 1978 Review | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| | Price level of Receipts | | | | | Base | | | |
| 12. | - Passenger | | | | | W 7 | W 29 | B 29 | B 70 |
| 13. | - Freight | | | | | B 2 | B 2 | B 32 | B 28 |
| 14. | - Parcels | | | | | - | W 2 | B 10 | B 13 |
| 15. | - Total | | | | | W 5 | W 29 | B 71 | B 111 |
| 16. | Price level of Working Expenses | | | | | B 23 | B 24 | W 125 | W 221 |
| 17. | Net Total Price changes in Profit/(Loss)before Grants | | | | | B 18 | W 5 | W 54 | W 110 |
| | Volume of Receipts | | | | | | | | |
| 18. | - Passenger | | | | | B 23 | B 33 | B 24 | W 7 |
| 19. | - Freight | | | | | W 14 | W 38 | W 112 | W 125 |
| 20. | - Parcels | | | | | W 4 | B 1 | W 13 | W 46 |
| 21. | - Total | | | | | B 5 | W 4 | W 101 | W 178 |
| 22. | Volume of Working Expenses | | | | | W 28 | W 55 | W 100 | W 65 |
| 23. | Net Volume changes in Profit/(Loss)before Grants | | | | | W 23 | W 59 | W 201 | W 243 |
| | Causes of change on 1979 Review | | | | | | Base | | |
| | Price level of Receipts | | | | | | | | |
| 12. | - Passenger | | | | | | B 5 | B 60 | B 101 |
| 13. | - Freight | | | | | | B 12 | B 54 | B 55 |
| 14. | - Parcels | | | | | | B 4 | B 18 | B 21 |
| 15. | - Total | | | | | | B 21 | B 132 | B 177 |
| 16. | Price level of Working Expenses | | | | | | W 11 | W 150 | W 262 |
| 17. | Net Total Price changes in Profit/(Loss)before Grants | | | | | | B 10 | W 18 | W 85 |
| | Volume of Receipts | | | | | | | | |
| 18. | - Passenger | | | | | | B 7 | B 2 | W 31 |
| 19. | - Freight | | | | | | W 9 | W 88 | W 106 |
| 20. | - Parcels | | | | | | B 3 | W 13 | W 45 |
| 21. | - Total | | | | | | B 1 | W 99 | W 182 |
| 22. | Volume of Working Expenses | | | | | | W 31 | W 35 | B 62 |
| 23. | Net Volume changes in Profit/(Loss)before Grants | | | | | | W 30 | W 134 | W 120 |

N.B. - See Appendix 4(a) - page 3 for notes.

British Railways Board

Railways Business - Profit and Loss Results 1974 to 1980 and Forecast 1981
Compared with Plan/Review Forecasts in Estimated Actual Prices

£m

| | Causes of change on 1980 Plan | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Base | |
| | Price level of Receipts | | | | | | | | |
| 12. | - Passenger | | | | | | | W 5 | W 15 |
| 13. | - Freight | | | | | | | - | W 2 |
| 14. | - Parcels | | | | | | | - | W 1 |
| 15. | - Total | | | | | | | W 5 | W 18 |
| 16. | Price level of Working Expenses | | | | | | | B 11 | W 53 |
| 17. | Net Total Price changes in Profit/(Loss)before Grants | | | | | | | B 6 | W 71 |
| | Volume of Receipts | | | | | | | | |
| 18. | - Passenger | | | | | | | W 4 | W 45 |
| 19. | - Freight | | | | | | | W 9 | W 17 |
| 20. | - Parcels | | | | | | | W 2 | W 6 |
| 21. | - Total | | | | | | | W 15 | W 68 |
| 22. | Volume of Working Expenses | | | | | | | W 1 | W 8 |
| 23. | Net Volume changes in Profit/(Loss)before Grants | | | | | | | W 16 | W 76 |

Notes (pages 1 to 3)

1. B = Better, W = Worse (than the Plan/Review Forecast)

2. The figures recorded in each 'Base' column represent the variations between the actual results for that year and the forecasts used in the Plan/Review.